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East Europe Report

ECONOMIC AND INDUSTRIAL AFFAIRS

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EAST EUROPE REPORT

ECONOMIC AND INDUSTRIAL AFFAIRS

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CEMA OFFICIAL INTERVIEWED ON BROAD RANGE OF SUBJECTS

Sofia POGLED in Bulgarian 11 Jun 84 pp 6-7

[Interview with Khristo Petkov, permanent secretary of Council of Ministers Commission for Economic and Scientific and Technical Cooperation: "Council for Economic Mutual Aid"]

[Text] CEMA: What is Most Substantial

[Question] Could you give us a brief economic description of CEMA?

[Answer] CEMA was created in January 1939 by decision of the representatives of Bulgaria, Poland, Romania, the Soviet Union, Hungary and Czechoslovakia. Albania became a member of CEMA at its first session in April 1949; the GDR joined CEMA in 1950 and, later, so did Mongolia, Cuba and Vietnam. The date was not a random choice. The dislocations which the war had caused in all people's democratic countries at that time and in the Soviet Union had been essentially eliminated and the material production sectors had reached and were outstripping the pre-war level. Following the example of the Soviet Union, profound economic and social reorganizations had taken place in the countries belonging to the newly established socialist system. During a 4-5-year period conditions and prerequisites have been created which allowed the objective economic laws of socialism to operate both within the individual countries and on a scale of the entire socialist system. A real need for planned multilateral cooperation had appeared.

At that time the economic potential of the founders of CEMA was modest. With the exception of the Soviet Union, the GDR and Czechoslovakia, industry in the other partners was underdeveloped and they needed comprehensive aid. Agriculture was greatly discoordinated and used primitive equipment. This condition was surmounted within a historically short time. Today the CEMA-member countries have a scientific and technical potential consistent with their size and population and are worthy participants in the international division of labor both within the organization and on a global scale. Our system already accounts for more than one-third of the national income on earth. In terms of material output it has outstripped the members of the European Economic Community.

[Question] What have the most important achievements of CEMA been during that period?

[Answer] The economic and scientific and technical cooperation among CEMA-member countries expanded and developed in accordance with the development of production forces and the advancement of production relations. From cooperation for the development of reciprocal trade they gradually converted to the direct coordination of national economic plans, the accelerated rapprochement among the structures of the individual national economies, the rapid development of multilateral and bilateral production specialization and cooperation, the formulation and coordination of joint programs for cooperation and integration in basic subsectors and production facilities and the solution of immediate and long-term problems.

The greatest accomplishment of CEMA is the creation of international economic relations of a new type among countries with very strong and clearly outlined differences in the development of production forces and the living standard of their peoples. Cooperation, mutual aid and integration led to substantial improvements in the conditions for accelerated growth of production forces and material output in all socialist countries, particularly in the economically underdeveloped ones, without this leading to difficulties for the members with a higher economic standard. The members of the commonwealth created or further developed viable national economic complexes and an effective public production structure. We are witnessing a historical process of gradual rapprochement among the levels of economic development of the individual member countries. Greater details cannot be given at this point. Let us merely emphasize, however, that the CEMA system has become the most dynamic and most stable indicator of economic growth in the world.

On CEMA's Readiness to React

[Question] The world's situation has changed drastically in recent years. Political upheavals result in economic anomalies as well. How does CEMA react to such changes?

[Answer] Over the past decade the economies of all countries in the world, including the members of the socialist commonwealth, have been developing in a much worsened political, economic and financial international situation. Economic progress in the entire capitalist world has been either slowed down or declined. With every passing year the material and technical foundations of such countries are being used on a declining scale. New capital investments have declined and unemployment has reached frightening dimensions. In a number of cases international trade is being restricted and subjected to protectionistic and sometimes even discriminatory measures.

Efforts to mount a systematic offensive on the members of the socialist camp are being systematically made with a view to erecting hindrances and difficulties in their overall reproduction process. However, thanks to the advantages of the socialist economic system and the highly developed economic and scientific and technical potential and the relatively full utilization of material, financial and human resources, the achievements of the international socialist division of labor and, above all, progress within the framework of CEMA, the economy of its member countries has been in a state of continuing upsurge. Compared to 1975, in 1982 the national income was 75 percent higher in the

Soviet Union, 115 percent in Bulgaria, 71 percent in Hungary and the GDR, 152 percent in Romania and 56 percent in Czechoslovakia. All in all, within the CEMA system, within that period the national income showed a 73 percent increase, compared with 21 percent for the Common Market and 30 percent for the United States.

It is clear that through coordinated and reciprocal efforts the fraternal countries are successfully dealing with the objective and the artificially created economic anomalies in the world. This became particularly apparent over the past 3 years which were the hardest. The economy of the Common Market countries and the United States is in a state of full stagnation whereas the national income of our socialist commonwealth is growing at an annual rate of about 2.5-3 percent.

On Petroleum and Petroleum Prices

[Question] Some new trends were noted at CEMA's last session, which was held in Berlin last year. This includes the petroleum exported by the Soviet Union, its price and the quality of the goods which the socialist countries export to the USSR. How should these new features be interpreted?

[Answer] Decisions relative to major problems of our development were discussed at the session, such as ensuring the commonwealth with energy and raw material resources, scientific and technological development, structural problems of the economy and reciprocal trade among member countries within the context of a steadily strengthening and developing comprehensive cooperation and integration processes.

The question of the trading prices among CEMA-member countries, has been interpreted quite speculatively by the Western countries. Actually, the basic principles which govern price setting within our commonwealth were coordinated and adopted as early as 1958 at the 9th CEMA session. Since then, barring insignificant additions, these principles have been applied in the case of energy and raw material resources, including petroleum, natural gas, coal, other materials, finished goods and services. It is true that price increases in our trade, in the case of petroleum and natural gas, for example, have been significantly above the average price increases in our overall trade. However, this is natural and is consistent with the existing principles governing price setting in our reciprocal trade, for prices of petroleum and natural gas on the international market, which is the base for price setting in commodities and services among socialist countries, increased by a factor of 12-15.

Nor is the problem of quality new. The requirements of the Soviet Union and the other socialist countries toward their suppliers have become particularly strict now, calling for commodities with technical and economic parameters on the level of the highest worldwide achievements. The question of the quality of produced and traded items is the focal point of attention of all fraternal countries and the results are improving with every passing year.

[Question] Is a new division of labor needed within CEMA, particularly in connection with reciprocal procurements of energy and other raw materials and resources among CEMA-member countries?

[Answer] The distribution of raw materials and energy within our community is extremely uneven, as is well known. Among the CEMA-member countries the Soviet Union alone can have a closed cycle of expanded socialist reproduction. Thanks to its tremendous energy and raw material potential the Soviet Union is and will remain the principal supplier of petroleum, natural gas, coal, coke and raw materials for the ferrous, nonferrous, chemical, timber processing and cellulose-paper industries to all members of the council. It is equally well known, however, that a tremendous share of the natural resources of the USSR has been discovered or is continuing to be discovered in the Far East, which is reflected quite adversely on the volume of capital investments in terms of their exploitation and primary and secondary processing and their transportation to the borders of the European socialist countries. As a result of these circumstances, changes in the forms of cooperation have taken or will take place between the supplier and the consumers. Virtually all or a high percentage of the European socialist countries are linked to the Soviet Union with petroleum and natural gas pipelines. The interested countries participate in their construction and the installation of proper capacities for their operation and for the use of many other raw material projects (iron ores, steel, ferro-alloys, cellulose, etc.) with their own forces and funds, i.e., by allocating some of their national income for such projects. Naturally, this process will continue in the future. In this manner, with the help of fraternal cooperation, our system will be able to secure on a stable basis some of its requirements for energy and raw and scarce materials.

We must emphasize, however, that regardless of the nature of capital participation involved, most of the current and future procurements from the Soviet Union will continue to follow the line of regular trade. In order to contribute to this development, both our country and the other socialist countries will have to adapt more intensively their material production structure to the requirements of the Soviet market in terms of variety, volume, quality and the promptness of deliveries of commodities, particularly machines and installations, electronic items and industrial and comestible goods.

On Duplication and Bureaucratism: Truths and Untruths

[Question] The question of the duplication of parallel economic mechanisms has been raised. What is the situation?

[Answer] International economic associations and economic organizations have indeed been created within CEMA by the interested countries. However, they have specific narrow-sectorial functions and tasks and we can clearly say that they duplicate the activities of the permanent CEMA organs to a minimal extent. Let us take the Interkhimvlakno MSO [International Economic Organization] as an example. The organization deals on a comprehensive basis with problems of cooperation in the area of chemical fibers: production specialization and cooperation, coordination of capital investments, scientific and technical cooperation and technical progress, mutual trade, study and utilization of

experience and achievements of the partners of the organization and other countries, etc. The functions and tasks of the Interkhim MSO, Intertekstilmash MSO, Interelektro MSO, Intermetal MIO [International Industrial Organization] and other associations and organizations are virtually identical. The other bodies set up by CEMA do not deal with such specific narrow-sectorial problems. However, the main trends and essential concepts governing the work of the international economic organizations are discussed and, to a certain extent, defined by the leading organs of the council, essentially with a view to guiding their activities better and eliminating any unnecessary duplication with the regular CEMA bodies.

The delay in the development of production and other economic activities, which could create real prerequisites for converting them to cost accounting and self-support, have been a shortcoming in the activities of international economic organizations so far. A number of steps have been earmarked in this respect.

Therefore, we cannot speak of the existence of duplicating or paralleling economic mechanisms within CEMA.

[Question] Some scientists in the socialist countries have noted the bureaucratization of CEMA "on a middle level" in the sense that the decisions taken on the highest level are good but their implementation is frequently not of the same quality. Do you share this view?

[Answer] It is true that resolutions and recommendations on the basic trends of economic and scientific and technical cooperation among CEMA members are made on the highest political and state levels. They apply essentially to long-term developments and hardly affect current cooperation problems. Their practical implementation is related to reaching full agreement and unity of action among interested partners with a relatively more realistic assessment of the circumstances under which a given decision may be carried out.

If the "bureaucratization of the middle level" frequently applies to the lengthy study, discussion and coordination of problems or their concretizing in accordance with the requirements of the times, the desires and the possibilities of the participating countries, I cannot agree with this definition. We must not forget that major problems, frequently involving substantial material, financial and other expenditures and structural aspects of material production, are raised for discussion and resolution by CEMA bodies. Such decisions can be made only with the agreement of all the partners, who are quite numerous. CEMA has 10 members and each one of them can participate on a fully equal basis in any initiative of the organization or join it should it consider it expedient. The adoption and implementation of resolutions through economic or any other type of pressure exerted by the stronger partners would violate the fundamental principles of our organization. Let it be said to its honor that no precedent exists in this connection.

Life in our countries, particularly on the international level, is quite dynamic. This dynamism and the steadily changing domestic and foreign political and economic conditions cannot be ignored in the area of cooperation.

Occasionally, from this viewpoint certain changes must be made to already adopted resolutions and recommendations. However, this is hardly a case of any kind of deformation. Naturally, a more efficient solution of problems could be achieved. In this respect a number of steps were earmarked at the latest CEMA session.

On Technical Provocation

[Question] The West will continue its efforts of applying economic and technological pressure on the socialist countries. How does CEMA as a whole react to this provocation?

[Answer] The aspiration on the part of the Western countries, the United States above all, to apply economic and technological pressure on the economy of the socialist countries is not new. It began as early as the end of World War II. However, we note in its practical implementation as well a cyclical nature which in the majority of cases is a characteristic feature of a category of political leaders. Naturally, the wedge is aimed at the Soviet Union.

Our economic system has pursued and will continue to pursue a policy of development and fuller utilization of the advantages of the international division of labor, i.e., a policy of developing trade, economic, scientific and technical and other relations with all countries in the world on an equal and mutually profitable basis with no discrimination whatsoever. Such relations are the most secure guarantee for the preservation of peace. Let us note that significant successes have been achieved in this respect. The nonsocialist countries account for about 40 percent of the overall trade of CEMA countries. Despite the artificially created obstacles and difficulties, the volume of trade with the Western countries is continuing to increase. Cooperation in science and technology is also successfully developing with many among them.

The Western countries, particularly those of Europe, well realize that economic and technological pressure cannot hinder the development of the socialist economy. The harm and the losses they suffer are greater for them. It is no secret to them that the socialist countries, the Soviet Union in particular, have not so far set as their objective to resolve their major problems through technological and economic cooperation with the Western countries. They are relying above all on their own scientific and technical and economic potential. The latest example in this connection was the building of the gas pipeline linking Siberia to Western Europe.

The CEMA countries are not guided in their scientific and technical policy by temporary and circumstantial considerations. They have always been convinced that cooperation with developed capitalist countries could and should have no more than peripheral influence on the overall course of our development. Consequently, it should not be considered that now, with Reagan's so-called crusade against socialism, something entirely new must be used in the overall policies of the CEMA countries.

On the Economy, Defense and Living Standard

[Question] The connection between the economy and defense is obvious. In the context of the current political situation it is clear that the socialist countries will be forced to allocate more funds for defense.

[Answer] The political upheavals which have taken place in the world and the emphatic aspiration of the imperialist countries, the United States above all, to increase their confrontation with the socialist countries are unquestionably triggering a corresponding economic tension. Despite this difficult situation, however, the national economies of the members of CEMA are following an ascending line and the living standard of the people is rising every year both through individual and public consumption. In their national economic plans through 1985, which also take into consideration actual defense costs, all of our countries stipulate the growth rates of their national income which have become customary in recent years and, therefore, improvements in the material and cultural well-being of the people.

The national economic plans for the development of the members of CEMA for 1986-1990 are being formulated and their coordination on a bilateral and multilateral basis has been undertaken. Preliminary data at our disposal lead to the conclusion that the living standard of the population within the CEMA system will continue to improve through 1990 as well. Major joint measures are planned for decisively increasing the volume of output and improving the quality of goods and services of agricultural and industrial origin destined for consumer use. To this effect a special program was adopted at the 37th CEMA session. The construction of housing, hospitals, schools, and rest, cultural and other consumer establishments will also develop without any particular disturbances.

Political and military blackmail on the part of the imperialist countries will result in the even better organization of economic and scientific and technical cooperation among CEMA members and the even fuller and more efficient use of the overall material and technical potential of the commonwealth.

The Mechanisms of CEMA

The most essential bodies of CEMA are the Session and the Executive Committee. The Session meets essentially once every year on the level of the heads of governments of participating countries. It discusses and makes decisions and issues recommendations and draws agreements on basic trends and problems of economic and scientific and technical cooperation, guided above all by the decisions made at the congresses held by the fraternal communist and worker parties and the agreements reached at the regularly held meetings among party leaders.

The Executive Committee is in charge of the day-to-day management of the council, the practical implementation of resolutions and recommendations adopted at the sessions and the directing and coordinating the overall activities of the other council bodies.

Second most important are the Committee for Cooperation in Planning, the Committee for Scientific and Technical Cooperation and the Committee for Cooperation in Material and Technical Procurements. All three committees are the coordinating, organizing and directing units for the activities of the other council organs in their specific areas of activity.

They are followed by the permanent commissions and a number of conferences held on specific national economic sectors and sub-sectors.

Khristo Petkov

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KAPEK VIEWS WORK COLLECTIVES AS STRENGTH OF ECONOMY

Prague RUDE PRAVO in Czech 5 Jun 84 p 3

[Article by Antonin Kapek, member of the Presidium of the CPCZ Central Committee and chief secretary of the CPCZ Municipal Committee of Prague: "Labor Collectives -- The Strength of Socialist Society"]

[Text] The predominant part of the basic nucleus of the Czechoslovak workers' class works in, and co-manages, the engineering and metallurgical complex on whose tasks the 10th Plenum of the CPCZ Central Committee last Wednesday focused its attention. The results of its work determine to a decisive extent the transition of Czechoslovak economy to the road of an intensive type of economic development. Thus, the workers' class, the technical and economic intelligentsia and the managers of these branches are becoming the main factors of the qualitative transformation of our material technical base. This is a task that in its depth, scope and difficulty equals such tasks as industrialization and collectivization. In the modern history of our nations our workers' class was able to cope with many tough tasks and to resolve them by its dedicated work. I am convinced that now and in the future it is ready to become fully involved in the achievement of the stipulated goals.

In the years of the building of socialism in our country we have invested enormous funds in the engineering and metallurgical complex, even to the disadvantage of a simple renewal of fixed assets in other branches. In recent years we have also legitimately invested extensive funds in the development and modernization of our electrical engineering industry. The time has come when those funds must bring returns. Modernization of capital production assets may provide conditions for highly serviceable and efficient machine technology to aid in the modernization of fixed assets of production in all other branches of our national economy.

In Prague the share of machine engineering and electrical engineering production amounts to more than one-third of all industrial production; here the need to modernize capital production assets and to update technology is more evident than in any other place. Highly skilled workers, technicians and managers are assembled here. Under such circumstances the returns on the invested funds are rapid and highly effective, which is important not only for the economy in the territory of our capital city but especially for the efficiency of Czechoslovak national economy in general.

Activation of Creative Forces

The progress of modernization of capital assets and of technological innovation demands comprehensive exploitation of the already existing modern capital assets of production and, conversely, expeditious phasing out of obsolete and inefficient [installations], reorganization of production and operations on the basis of updated technologies and introduction of the production of top quality, technically advanced, highly reliable equipment with optimum service life. In addition to the long-range material technical conception of the development of the machine engineering and metallurgical complex, we must raise the activity of work collectives to a substantially higher level in terms of activating all creative forces at our disposal. We must activate honest and diligent human hands and creative minds both in the production and in all pre-production stages (in research, planning, construction, technology, organization) as well as in all post-production stages (marketing, commercial transactions and service). For that purpose our political work and personnel cadre activities must be improved and the set of measures for improving the planning, khozrashchet and management system -- i.e., the entire economic mechanism -- must be further developed.

In recent years we have become accustomed to saying that the shortage of energy resources, raw materials and occasionally even of labor forces are the factors curbing our economic growth. Not only has this been often noted but frequently it has served as convenient justification of the inability to resolve the problems in the interest of all of society. In my personal opinion we rather lack sufficient innovative skills, independent enterpreneurial managers, rigorous labor discipline and thorough application of socialist principles. Each according to his abilities and to each according to his work and other attributes appropriate for the role of the human factor in socialist society and economy. If we fail to resolve the problem of activating the subjective factor on the basis of our principles and our party policy, a real obstacle to our economic progress may sprout up behind our backs.

We are therefore facing the task of raising the social consciousness, collective incentive and individual involvement of every manager and subordinate worker to a qualitatively new level. What are the foundations on which such a solution may be based.

Along the straight axis of management -- from the minister to the foreman -- there is no other way than the comprehensively enforced requirement of personal responsibility for the fulfillment of the assigned realistic tasks, than the necessary conclusions drawn for our economy, political line and cadres from the fulfillment or nonfulfillment of our tasks. By the same token, however, new and qualitatively higher forces that agree with our time must be gradually introduced in practice.

Enormous Power of Collectivism

Such forces are inseparably tied with a higher and more rational application of the collectivist principles. Work collectives in production as well as in the pre-production and post-production stages constitute the nucleus of our socialist society and economy. Realistic opportunities of work collectives to determine the creation of the resources as well as rewards for the work performed represent an enormous power of collectivism and a great, not yet fully utilized asset in our economic growth and rational management.

We all agree that last year's favorable economic achievements stemmed mainly from a higher motivation of the human factor. In this we must continue with the aid of dependable mechanisms. However, most of our means for activation used thus far follow the characteristics of a campaign; we mobilize workers from one action to another.

Now we must be concerned about something more profound, more permanent and systematically effective, must gradually create a system that would continuously activate the creative forces of the workers' collective and lead to their straightforward activity while fulfilling the objectives of our party's economic program.

Mobilization of the creative forces of our working people does not spring forth from administrative subservience, technocratic discipline, enlightenment or all-encompassing control. Accurate evidence, orderliness, control and good theory are the conditions and prerequisites for the activation of creative powers. However, we must proceed with the activation of creative human forces in socialist society on the basis of comprehensive pressures of real economic, political, cadre, social and ethical conditions which affect the activity of work collectives as co-stewards of the property of the entire nation, and we must link such challenging conditions with collective economic incentives. Thus, absolutely essential demanding conditions will be created for honest, hard and responsible creative work.

In simple terms, the power and strength of our socialist society, which exists in work collectives, must be released from the constrains of mindless regimentation. When intensifying the leading role of the communist party in the development of our socialist political system, when increasing the impact of our medium-range central plans, when implementing thorough economic and organizational operations of central agencies of our state administration, the power and defined autonomy of our work collectives may be steered in a correct, desirable and socially beneficial direction. After all, this is what concerns us. We do not want any anarchy and lack of planning; we want to release the creative powers of our work collectives.

It is not at all incidental that in developed socialism we must set for ourselves the task of raising to a qualitatively higher level the role of the collective of the workers' class in the production. This corresponds with our efforts to intensify the real base of socialist democracy in the further development of our society and at the same time it is in complete harmony with the indispensability of the collective and team work in

science and research. It is simply impossible to accomplish the tasks at the present stage of the scientific and technological revolution in any other way but by collective deployment of all creative forces. The key question, however, is what kind of challenging environment we shall create for the activity of work collectives so that the achievements of their work can reach the very peak of progress and so that their work will always be inspired toward creativity and economic rationalization.

In recent years economic activities of work collectives not only in our country but in most of socialist countries have been developing and advancing to a qualitatively higher level. The genuine political rights of the working people existing in socialism are connected with the expanding real economic authority of work collectives. These rights have been codified and guaranteed by law. To put it briefly, the objective is to give work collectives greater legal and economic rights and responsibilities both in the material and economic fulfillment of their assigned tasks and in rewards to individual members of work collectives according to their position and merits for the final achievements of labor and stewardship of the entire collection.

New Concept and Purpose

In other words, the objective is for our collectives of competent, skilled workers and technicians not to focus "exclusively" on production according to specified indicators but to be given material, political and moral rewards for their good stewardship and penalized for negligence and waste of products. Under such circumstances continuous pressure will develop to boost activity, initiative and creativity; the sorely needed differentiation of wages according to real merit will be achieved, and instead of complacency to shortcomings, they will be subjected to criticism and eradicated. In such a situation the collective will honor creativity, new ideas and new solutions, and everything will begin to move forward.

In his address in the Hammer and Sickle Metallurgical Works in Moscow on 29 April 1984, Comrade Konstantin Chernenko noted that the teamwork form of labor organization and evaluation had received the green light due to the initiative of the foremost collective. It stems directly from the masses as a result of people's social creativity. An efficient method for intensification of labor productivity, which is germane to our system, had been elaborated. Comrade Chernenko stated that a correct method for linking of the personal interests of the workers, collective and society had been found and that this was one of the fundamental issues of the building of socialism in the economic as well as sociopolitical and educational sense.

In a work collective that is employed in a challenging environment and whose activity conversely creates such a challenging environment, the role of a creative personality, able inventor, improver, outstanding organizer or rationalizer does not fade away. On the contrary, for good achievements a work collective needs in its own genuine economic interest such

personalities and, therefore, it respects them; we are trying to implement their achievements and we say frankly that [the collective] protects them against all kinds of disparagement which those workers frequently encounter.

The introduction of qualitatively higher economic and legal conditions for the operation of work collectives, which are sometimes called comprehensive enterprise subdivision khozrashchet and sometimes the teamwork form of labor organization and reward for performance, will also demand that the relations between work collectives and the management of the enterprise, and between enterprises, VHJ's [economic production units] and central agencies of the state administration be raised to a qualitatively higher level. If in the process of managing and planning we raise one link of the chain, i.e., the work collectives, we shall raise the whole chain, and thus the whole management and planning system will be elevated to a higher level. At the same time, we shall take a real step forward toward the consolidation of socialist social relations, toward their growth in their social substance, and toward vigorous expansion of socialist nationality of management and personal responsibility of all levels along the direct axis of the management.

This never is a one-shot step. The problems cannot be fully resolved on a day-to-day basis. However, neither can procrastination be tolerated and solutions postponed, nor, as the case may be, can their substance be distorted by approaches without integrity. This may be a long-term process of maturation of socialist relations among people, in the economy and gradually in every other area of life in our socialist society; nevertheless, at this time already we must help initiate that process.

Conditions of Accomplishment

The decision of the 10th Plenum of the CPCZ Central Committee included the following charge: "In the interest of the fulfillment of the tasks for the Seventh 5-Year Plan it is necessary to improve further planning and management of the engineering and metallurgical complex, to take better advantage of the opportunities offered by the Set of Measures, to consolidate direct management, labor and technological discipline, to extend responsibility, and to exercise control consistently, to provide better conditions for raising the role of the foremen, to intensify the task of work collectives, and to implement the teamwork form of labor organization."

Our experience and the experience of our friends in the USSR and some other socialist countries lead to the unambiguous conclusion that these measures promote the creation of far more challenging conditions for consistent improvement of the quality of goods and of other procedures from the workshop to the ministry.

A question arises whether appropriate political conditions have been provided for the implementation of this solution. We are searching for an answer in an era that has armed us with political experience. It is 15 years since the Central Committee met in April and then in May of 1969 and

elected Comrade Gustav Husak to lead our party. During that period the position of the socialist Czechoslovakia in the world has not only been successfully regained but also strengthened, the socialist character of our country's political system restored, production forces in our country further developed, and, above all, the trust of our people in our party's policy successfully recovered. Persons with good memory will remember that 15 years ago not even the greatest optimist would believe that the complicated political and economic situation into which our country had fallen under the influence of the rightwing and antisocialist forces could be resolved in such a short time.

In those 15 years we devoted considerable attention to a gradual, deliberate expansion of socialist democracy according to the level of the achieved political consideration and economic development. The number of work collectives competing for the title of the team of socialist work was greatly enlarged, and also the number of comprehensive rationalization teams was dramatically expanded. After our party's 16th Congress we considerably expanded the legal economic, and, thus, also the political rights of the basic levels of national committees. We consolidated socialist collective principles of our cooperative movement and appropriately linked its further development with the development of an advanced socialist society. In our opinion all necessary conditions have been created, including a renewed dynamism of Czechoslovakia's economic growth, in order to fortify the legal and economic rights of work collectives in our socialist enterprises.

Support Gained from Fraternal Experience

On many occasions in history we have made serious decisions on the basis of the experience of our comrades in the first country of socialism -- the USSR. We have observed our Soviet comrades as they developed with considerable attention and great concern the principles of socialist collectivism after the 26th Congress and, on that basis, restructured all socioeconomic relations.

It will be soon 1 year since they adopted, after a nationwide discussion, the law on work collectives. For many years they have gradually introduced the teamwork khozrashchet in economic operations of work collectives. Thus, they are improving the economic mechanism of planning and management in dialectic linkage by changing the conditions and the system of planning and management from the bottom up as well as from the top down.

From the center they are improving planning, economic mechanisms of management and the ensuing economic organizational programs of central agencies of the state administration, and from the bottom up they are developing teamwork forms of labor organization and rewards for performance, and strengthening the economic independence of enterprises and VHJ's. The dialectic of this process of interrelated steps for improving the planning system from the bottom up and from the top down is expedient for a comprehensive solution, because every step leading to more rational

central management, based on genuine interests of work collectives, is translated into reality, so to say, in an easier and more self-evident manner.

Therefore, in my view, better realistic application of the principle of collectivism in the state sector, which constitutes the greatest part of our national income and where most of our working people are employed, should be developed precisely in the enterprises of the engineering and metallurgical complexes.

I should like to mention a prominent worker-founder, Comrade Frantisek Kubes, who noted in the discussion at the 10th Plenum of the CPCZ Central Committee that the technical standard, reliability and, thus, also marketability of goods are a concern of the whole work collective. Comrade Kubes demanded that all our working people take a more active part in management through the mediation of work collectives; he added that he saw the work collectives as a means to win over in their own interest all members for the fulfillment of our party's policy in specific conditions of individual workplaces.

With their economic and legal status the work collectives in our socialist state enterprises must become the mainstay of rational management, technical progress and high quality of the goods in demand. Then our socialist state not only by its form but also by its contents will set an example to all other forms and methods of production and management by which our needs are satisfied. This is what we want to achieve and what we must achieve. Only in this way will the advantages of our socialist society and economy come to the fore because by prompt application of the achievements of the scientific and technological revolution we shall further and better upgrade the productive forces in our society to a qualitatively higher level and satisfy the needs of our citizens.

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THREE YEARS OF SET OF MEASURES IN ENERGY, FUELS EXAMINED

Prague HORNIK A ENERGETIK in Czech 19 Apr, 3 May 84

[Article by Eng Karel Cadan, CSc, department head: "Sector of the Federal Ministry of Fuels and Energy and the Set of Measures for Improving the Planning Management System"]

[19 Apr 84 p 3]

> [Text] Over the past several days we have assessed the effectiveness of the Set of Measures in the sector of fuels and energy for the first 3 years of the Seventh 5-Year Plan. It is a sufficiently long period to allow for an assessment of the positive and negative trends in its utilization. Can we be satisfied with the overall results or not? The answer cannot be unequivocal. Final conclusions must be necessarily based on an analysis of individual spheres of the system of management, particularly planning, capital construction, foreign trade, supply-demand relations, khozraschet, fiscal management and workers' participation.

Were we to assess effectiveness of the Set of Measures merely by the achieved results, we would have to state that in 1983 it was at its highest point in production and in the economy.

Let us outline the development of selected key indicators:

Item	Percentage of meeting 1983 plan	Between Years Index 1982/1981	1983/1982
Coal Mining	102.8	101.4	102.3
of which sized coal	105.6	101.0	103.2
overburden	108.2	107.6	111.9
Electric power generation	101.2	101.8	101.9
Labor productivity	102.8	98.7	101.3
Costs	98.7	103.3	100.9
of which cost of materials	98.0	100.5	99.8

In comparison with 1982 there occurred a considerable slowdown in the rate at which the sector's effectiveness was deteriorating. This becomes obvious through comparing the between-years rates for the periods 1982/1981 and 1983/1982. In the cost of materials there even occurred a between-years decrease in 1983.

Nevertheless, we must admit that these favorable results were not achieved just by making better use of the Set of Measures. They could have been even better if we had made more comprehensive and systematic use of all the set's elements.

A generalized assessment of the effectiveness of the Set of Measures for the national economy shows that:

--the introduction of the indicator of adjusted value added as a modified type of net production can be assessed postively; improved use of more easily mobilized hidden resources was achieved through the elimination of ineffective cooperations;

--the Set of Measures has so far failed to create a demanding economic climate to promote interest in technological development, improved utilization of inventories and long-term assets, improved compatibility in exports, manpower savings and increases in labor productivity;

--the effects of the Set of Measures are not comprehensive as yet and the causes are to be seen primarily in the less than systematic implementation of its elements; at the moment of experiencing a more serious impact demands are made--and, regrettably, granted--to authorize exemptions leading to the alleviation of such impacts. Also, the prerequisites for the generation of wage funds still have not been made demanding enough to facilitate the acquisition of sources only for results that represent actual improvement in efficiency;

--the Set of Measures has so far failed effectively to prevent the unplanned transfer of export assets destined for nonsocialist countries to other less demanding forms of utilization of production, e.g., to the sphere of investments and consumption in production operations;

--the faster rate of decrease in the cost of materials, the more responsible approach to problems of economy, and stricter demands on the khozraschet sphere's accessibility to financial resources deserve positive assessment;

--the planning of implementation counterproposals has so far failed to achieve any more prominent results; it was oriented primarily toward adjusted value added, profit, and return on investment, and less toward technological development, exports, quality of production and manpower savings;

--despite certain improvements, there still persists an unsatisfactory situation in the relations between supply and demand where, for the time being, the planning and supply discipline still is not at the desirable level;

--return on investment with regard to production assets proved effective only in relation to generation of profit, but not in relation to production assets; the amount of profit is approximately ten times that of production assets in relation to the return on investment in production assets.

The effectiveness of the Set of Measures in the sector of the Federal Ministry of Fuels and Energy in 1983 was directly or indirectly affected by:

--indispensable interventions by central authorities in operational control of supplying the national economy and the populace with fuels and energy. This was occasioned by continuing complications in providing for the mining of coal and its structure in the Ostrava-Karvinna basin, primarily as the result of deteriorating mining and geological conditions, further by shortfalls in launching additional blocks into operation in nuclear power plants, shortage of water for the generation of electric power in hydroelectric power plants and by exceptionally favorable climatic conditions for strip mining of coal;

--an improved mining situation in the North Bohemian Lignite basin, which led to an improved overall climate in all aspects of the basin's process of economic renewal;

--persisting shortcomings in the supply-demand relations, primarily in the area of capital construction and development of science and technology, and continuing difficulties encountered in the construction of nuclear power plants;

--additional improvements in the application of intraplant khozraschet, economy and other elements of the Set of Measures, which are still plagued by inadequate changes in the thinking of key cadres in decisionmaking, management and control as envisioned by the Set of Measures;

--insignificnat improvements in economic, technological, planning, fiscal and work discipline.

A share in the positive results achieved by the sector of the Federal Ministry of Fuels and Energy accrues to a number of factors, the individual effects of which are very difficult to assess. In addition to the Set of Measures, a positive role was played by intensification of the system of personal incentives for motivating managerial and other personnel toward indicators such as quality of production, labor productivity, limitation of inventories, and costs. Measures of this nature have so far proved to be most effective.

A positive role was played by generally increased demands on task specifications and economic plan limits, both in production and, primarily, in economy.

A significant role was also played by the fact that there occurred a considerable tightening up of conditions for the acquisition of investment, foreign exchange, credit and financial resources and limitations on making changes in the plan during the course of the year and at its conclusion.

The achievement of improved effectiveness was also aided by meeting the economization program promulgated by the CPCZ Central Committee and by the CSSR Government. This deals primarily with shrinking the administrative apparatus, no increases in overhead expenses, adherence to the limits on nonproductive expenses such as travel pay, expenses for entertainment and gifts and expenses for advertising.

For example, the numerical strength of the administrative apparatus in the sector of fuels and energy is to be reduced in the period 1982-1985 by 2,400 persons. More than one-half of these reductions in force was already implemented in 1982 and 1983.

Considerable room for improvement in economy is provided by overhead expenses that in 1983 amounted for the sector to Kcs 10.5 billion, with almost 60 percent accruing to administrative overhead.

Improvements in planning and fiscal discipline, and protection of socialist property, have lately been aided by higher demands and systematic attention paid by organs of external and internal control and by the establishment of a narrower berth for organs of the State Bank in credit and interest policy.

In key areas the effectiveness of the Set of Measures was as follows:

Positive assessment in the area of planning can be given to the lower rate of occurrence of changes in the plan over the course of the year and at its conclusion and to the efforts on cutting down on the extent of specified indicators. Yet, compilation of the plan is still administratively demanding and complex, there are still entirely too many specified indicators and indicators that are of decisive importance for the evaluation and generation of monetary incentive funds. Enterprises are pointing out the inadequate interlinkage between individual components of the plan.

(conclusion in next issue)

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[Text] Expectations that enterprises and concerns submit viable plans and implementation counterproposals did not materialize; rather, the opposite is true. In comparison with the 5-year plan for 1984, the sum of plan proposals from concerns of the Federal Ministry of Fuels and Energy showed an excessive failure to comply with efficiency indicators and other requirements on manpower, imports, investments and inventories. In the case of profit alone, noncompliance with the 5-year plan amounted to approximately Kcs 2 billion and in relation to the state budget it was marked by additional demands to the extent of approximately Kcs 8 billion.

Implementation counterproposal planning in preparation for 1984 was applied primarily at the enterprise level, specifically in enterprises outside of the basic production sphere. From among concerns, an implementation counterproposal plan was submitted only by the Lignite Mines and Briquetting Plants in Sokolov with regard to coal mining and overburden. Other concerns were unable to use and submit implementation counterproposals, because their enterprises showed poorer compliance with the quotas and limits of the directive and, as concerns, they were unable to submit any contribution beyond the framework of the directive.

The extent, level and quality of implementation counterproposal planning depend on the goals demanded by plan specifications. Despite the fact that, e.g., a coefficient of higher wages in relation to coal extraction in a

ratio of 2:1 was established in the Ostrava-Karvinna basin for purposes of implementation counterproposal planning, mining enterprises failed to avail themselves of it. The reason is the fact that the plan of these enterprises already includes a certain volume of coal extraction that exceeds the legally permitted extent of working hours.

Implementation counterproposal planning in the preparation of the 1984 plan will be oriented toward increased extraction of coal and its improved assortment and quality, toward savings of fuels and energy, expedient performance and higher exports--all with adherance to the planned costs.

Channeling of wage funds in the sector's khozraschet sphere differs from nationwide principles. The basic component of wages is not subject to recomputation, and the incentive component is recomputed in relation to the development of natural units, readiness of capacities for deliveries and meeting of planned cost limits. This system is fully in compliance with the merit principle and the wage-intensive nature as well as peculiarities of the fuel and energy sector. However, it is running the risk of recurrent loss of preferential wages, particularly in the case of miners, in comparison with organizations of other sectors that draw wages in dependence on adjusted value added and return on investment from production assets.

Enterprises of the fuel and energy sector gained through recomputation, together with all includable items, a total of more than Kcs 140 million. A considerable part of includable items was formed by wages for savings of fuels and energy and for improved comprehensive energy efficiency in the generation of electric power and heat.

Objections to the excessively demanding nature and complexity of the control system and its low level of comprehensibility to wider circles of workers are constantly voiced on the part of enterprises and concerns. Criticism is also voiced about the frequent changes in recomputation coefficients and in includable and deductible items. The obligatory nature of wage control is to be assessed positively during the current orientational manpower limit.

Average monthly earnings in the coal industry amounted in 1983 to Kcs 4,179 with a between-years increase of 2.3 percent, to Kcs 3,307 and 2 percent in power engineering, Kcs 3,149 and 1.9 percent in gas manufacture.

The effectiveness of the Set of Measures in capital construction is still minimal. A certain amount of improvement is due rather to more demanding directive measures of the plan oriented toward limiting newly launched construction projects and cutting down on the obligatory limit of investments in the category of construction projects with budgeted expenses up to Kcs 2 million and machinery not included in the budget. However, cutting down on this category leads in some cases to preventing the possibility of simple renovation of mechanisms and networks.

A more demanding approach to the assessment of construction projects as part of expertise proceedings also appears to be positive, as does the effort to achieve at least an overall balancing of supply capacities. There still

persists a supplier's monopoly in capital construction, with all the risks it poses to the meeting of deadlines, specifications and budgeted expenses of construction projects.

The prerequisites for effective application of Federal Ministry of Finance Decree No 37/83 regarding billing for deliveries and operations in capital construction failed to be created for 1984 on the part of suppliers and investors. This decree tightens up the procedures for billing and bestowing partial payments according to how well the contractor is deliverying and meeting integral billing units in quality and time.

A positive turnover occured in the sector in 1983 in the area of working capital, primarily in inventories. Total inventories amounted toward the end of 1983 to approximately Kcs 12 billion. If we subtract from them the increase that occurred through an increment in the inventory of fuel elements for the generation of electricity in nuclear power plants, other inventories showed a between-years decrease. The key positive share in this development accrues to credit and interest penalties enforced by the bank and to expansion of the system of incentives to a wider circle of responsible personnel.

On the other hand, the above-mentioned economic pressure leads to a sort of speculative game. A considerable decrease in inventory to the level of prescribed limits occurs in the last, bonus-related month of each quarter and, hand in hand with this, a higher consumption of material and transfer of bills to the subsequent month, also occurs.

The well-known shortcomings in supply-demand relations continue to persist, even though certain improvements occurred in this area with regard to many materials, replacement parts and services. The system of supply-demand relations as practiced, limitation and regulation of supplies of fuels and energy, appear to be working well, However, at the enterprise level it will become necessary to devote more attention to maintaining the assortment, qualitative and chronological specifications relevant to supplies for fuels and energy.

The fiscal management of the sector was characterized in 1983 by the fact that once again, after a long time, the sector was paying into the state budget amounts exceeding the contingency fund limits, was able to make allocations to monetary incentive funds (FKSP [cultural and social services fund], special compensations fund, contingency fund) and meet demand to its full extent, but failed to make full use of allocations for the state budget and investment credits due to considerable failure to meet planned quotas in the construction of nuclear power plants.

Due to the inadequate financial basis of the coal industry, it became necessary to redistribute Kcs 3.3 billion in profit and write-offs from power engineering and gas manufacture in 1983.

Very slow progess is being made in changing the thinking of enterprises and concerns to the effect that exceeding production quotas and capital construction should be dealt with with sufficient time lead, including the

problems of effectiveness and financial resources. Many of them operate on the premise that the requisite financial resources must be finagled from "up there."

Over Kcs 400 million were allocated into special compensation funds in 1983, and almost Kcs 400 million went to FKSP.

On the basis of a ruling of the Federal Ministry of Finance, approval proceedings of economic results for 1983 were marked by stricter asessment and evaluation of the results achieved by enterprises and concerns. In the case of 3 concerns and 19 enterprises the analyses for 1983 were closed, due to a failure to meet certain indicators, only "with a proviso."

The effectiveness of khozraschet is still unsatisfactory. From the methodological and formal aspect, preparation of intraplant khozraschet in enterprises has been good. A more complicated situation with its practical application arises primarily in cases where a given plant, economic center or work team fails to meet its quotas and limits. In such cases ways are sought to change them with the objective of avoiding conflicts.

Higher effectiveness of application of intraplant khozraschet is constructed for the time being by an incomplete and inadequate normative base, primarily in standards for capacity and material consumption.

Measures oriented toward expanded use of the work team form of organization of labor and of remuneration, more systematic application of implementation counter-proposal planning, and development of the normative base are designed to improve the efficiency of intraplant khozraschet.

Conclusion

The utilization of the Set of Measures in 1983 was better than in 1982. This was reflected also in the achievement of specific production and economic results. However, the effects of the Set of Measures still do not have a comprehensive impact. Its inadequate effectiveness applies primarily to improving the effectiveness of capital construction, development of science and technology and supply-demand relations.

Principles for continued improvement of the system of management in the period following 1985 are currently in preparation and are based primarily on the principle of creating an even more demanding economic climate, strengthening the khozraschet position of concerns and enterprises, establishing a uniform system of criteria of effectiveness for all levels of management, and achieving harmony between the natural and valuational aspects of the process of economic renewal.

Outline of Coal Extraction in CSSR

Item	1-15 April 84 Percent	1-30 April 84 Percent
Ostrava-Karvinna Mines	100.2	100.0
Bituminous Coal Mine	100.9	100.3
North Bohemian Lignite Mines	102.2	106.8
loose overburden	106.1	110.2
Lignite Mines and Briquetting Plants	103.7	104.5
loose overburden	118.6	108.8
Bituminous and Lignite Mines	100.8	100.1
Total Coal Extraction	102.0	104.6

Electricity Generation in Power Plants
of the Federal Ministry of Fuels and Energy

Item	Percent of Plan 1-15 April 84	Index 1983-84	Percent of Plan 1-30 April 84	Index 1983-84
Steam Power Plants	100.5	1.148	104.4	1.109
Hydroelectric Power Plants	61.7	0.542	61.5	0.551
Nuclear Power Plants	96.7	0.486	105.4	0.927
Total	97.1	1.014	101.6	1.046
Total measured load on the electrification system	10,949 MW	1.044	10,713 MW	0.998

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BASIS FOR PRICING CHANGED FROM USE VALUE TO COST

East Berlin GESETZBLATT DER DEUTSCHEN DEMOKRATISCHEN REPUBLIK in German Part I No 35, 19 Dec 83 pp 341-370

["Order on the Central National Calculation Guidelines for the Formation of Industrial Prices of 17 Nov 83" signed by W. Halbritter, minister and director, Office for Prices]

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I.

Objective and Tasks of the Central National Calculation Guideline

Article 1

(1) The central national calculation guideline establishes the requirements of the state with regard to the formation of industrial prices, the calculation of costs and profits and the methods to be used in this process. The close link between the central national management and planning of industrial prices and the enforcement of the central national calculation guideline must guarantee that prices will continue to be firmly controlled by the socialist state, and that the work on prices will be further rationalized.

(2) National requirements on and methods for the formation of industrial prices are designed to raise the national economic efficacy and quality of the products. Their consistent application is subject to strict national checks and is the precondition for the state confirmation of industrial prices. Industrial prices are to be used as effective tools of management, planning and economic accounting.

(3) The formation of industrial prices must be based on the need more effectively to utilize the economic classifications costs, price and profit

-- For the greatest possible efficacy of intensification, especially the steady improvement of the cost-profit ratio;

-- As the basis for the proof and appraisal of the growth of efficiency resulting from research and development tasks;

-- In the drafting and use of norms and normatives for the use of embodied and live labor and informative cost and profit calculations;

-- For the performance comparison between enterprises and combines and the more widespread application of proven methods of socialist management and in the socialist competition.

II.

Scope

Article 2

(1) This order applies to

-- State owned enterprises, institutes and facilities

. of industry and the foodstuffs industry,

. of the construction industry,

. of the transportation system,

. of the postal and telecommunmication system,

. of agriculture and forestry
insofar as they turn out industrial products,

. of all other sectors of the national economy,
insofar as they must use industrial prices;

-- Industrial and service enterprises of the Association of GDR Consumer Cooperatives and the production and service facilities of the Peasants Mutual Aid Association (Peasants Trade Cooperative--VdgB)

(hereinafter designated enterprises).

(2) This order also applies to combines and state organs carrying out tasks with regard to the management and planning of industrial prices.

(3) The duties determined in this order for the general directors of combines relate to the product groups in their sphere of responsibility in the field of prices as per the legal regulations.[1] These duties must be complied with mutatis mutandi by the managers of state organs, chairmen of district economic councils and other managers if the legal regulations[1] assign them the responsibility in the field of prices for specific product groups. Insofar as the general directors of combines and other managers must carry out tasks on behalf of the enterprises subordinated to them, this order incorporates specific instructions to that effect.

(4) This order is to be applied

-- In cost and price comparisons within the scope of product group work and enterprise comparisons as the basis of the rationalization, specialization and standardization of production with the objective of lowering prime costs;

-- In price measures to encourage intensification of items in production;

-- In drafting industrial prices for items to be introduced in production and new services (hereinafter designated items to be introduced to production), in the examination of price applications and the fixing of industrial prices;

-- In the ascertainment of costs as the basis of the arrangements of price surcharges and price markdowns established in legal regulations;

-- In the drafting and confirmation of methods of relative price formation, such as parameter prices, price series, sectional prices and sectional price normatives, margin calculation as well as of normatives and additional rates for the calculation of costs and profit;

-- In carrying out price checks.

The application of the provisions of this order for planned industrial price changes proceeds as per Section VI and the detailed instructions thereto.

(5) The provisions of this order also apply to products designed to ensure the economic security of national defense if no special instructions thereto have been issued.

(6) The provisions of this order do not apply to the formation of industrial sales prices and retail sales prices of consumer goods nor to the formation of prices for services directly charged to the public. However, enterprises will use this order for the formation of enterprise prices of such products and services.

(7) The provisions of this order do not apply either

-- To the formation of import sales prices;

-- To the formation of prices for research services or scientific-technological services as per legal regulations.

(8) Not affected are instructions on the formation of industrial sales prices for deliveries to specific customer sectors, that diverge from the provisions of this order. Howewver, enterprises will use this order for the formation of enterprise prices for such products.

(9) This order does not change the prices of products and services to the public, nor may such changes be made on the basis of this order.

III.

Industrial Prices for Items in Production

Article 3

(1) When materials, productive funds and live labor are conserved by intensification measures such as the use of new technologies, the more rational use of basic assets, materials substitution, the combination of operations, the existing industrial prices for items in production are to be retained unchanged if quality instructions are observed as stipulated in work standards with quality criteria and national quality regulations and operating provisions (hereinafter designated quality regulations and operating provisions).Enterprises must continue without any change to base their plans and contracts on these industrial prices and charge them to their customers.

(2) No proof of the safeguarding of quality instructions is required if, in the course of carrying out intensification measures, costs are lowered without affecting product quality (for example lowering the costs of materials

consumption or the better utilization of productive funds). However, enterprises are obligated to produce such proof for their main customers if the intensification measures exert a direct effect on quality instructions (for example in the case of materials substitution or the use of another technology). This proof must be provided on the basis of the quality regulations and operating provisions and, as per the regulations in the special calculation guidelines, must include a comparison of the functional features of the products before and after the adoption of the intensification measures. This requires at least a comparison of the function, efficiency, reliability, durability and design as well as the quality standard as per the technological requirements of the main customers. The main customers must communicate their comments within 4 weeks.

(3) If no agreement is achieved with the main customers regarding the guarantee of quality instructions, the evidence and a report about the disagreement must be submitted for decision to the competent section of the Standardization, Measurement and Commodity Testing Office (ASMW) or the usually competent organ. A decision must be issued within 4 weeks.

(4) Proof as per Paragraph 2 and the product definition consonant with the changed circumstances must be submitted to the combine competent for the product group prior to the introduction of the intensification measures. No price application needs to be submitted. If necessary, the expanded product definition must be added to the price index card.

(5) At the suggestion of the enterprises or on the basis of their own investigations, general directors of combines must include products as per Paragraph 1 in the draft of their recommendations for the preparation of Council of Ministers' decisions on planned industrial price changes[2] if, by this means, better conditions are created by way of the price for

-- Appropriate output for the supply of the public, the economy and the export trade;

-- The development of cost reserves and the steady improvement of the cost/profit ratio;

-- The application of scientific-technological advances and the manufacture of products with low prime costs and the greatest possible economic profit at home and abroad;

-- The better utilization of basic assets, the lowering of energy and materials consumption and the rational use of the social labor capacity.

The inclusion of products as per Paragraph 1 in the preparation of Council of Ministers' decisions on planned industrial price changes may also proceed on the basis of recommendations by the competent ministers (hereinafter designated industrial ministers) or the director of the Office for Prices.

(6) If, as a result of intensification measures, divergences arise from the quality instructions of quality regulations and operating provisions,

the industrial prices of these products must be formed on the basis of the provisions of Article 19. The enterprises must submit a price application unless they are authorized themselves to fix industrial prices on the basis of state confirmed price formation methods.

IV.

Industrial Prices for New Items to Be Produced

A.

Bases of Industrial Price Formation

Article 4

(1) The following are the bases for the formation of industrial prices of items to be introduced to production:

a) As per state confirmed price formation methods, industrial prices are to be based on the manufacturing costs of the items to be introduced to production (calculable prime costs plus state confirmed costing profit surcharge), consonant with the genuinely achievable output capacity in the industry or product group as the expression of the socially required cost (Articles 5-11);

b) To stimulate the manufacture of products with the greatest possible efficiency and the best possible quality, temporary extra profits, profit surcharges and price surcharges are to be centrally established, depending on the rise in efficiency and quality and other national objectives (Articles 12, 13 and 15).

(2) For the consistent utilization of industrial prices as tools of management, planning and economic accounting, the approximate correspondence of costs and industrial price must be safeguarded, and so must the properly established profit relations of the items to be introduced to production with items already in production. The changes in profits and industrial prices of items in production needed for this purpose must be made on the following bases:

a) By the planned change of industrial prices following a decision by the Council of Ministers (Article 28);

b) By the planned reduction in enterprise prices of single products or product groups carrying large profits, to be enacted by the Council of Ministers following preparation as per Article 8 Paragraph 4 of Price Order No 475[3];

c) By centrally fixed profit and price markdowns for products that do not meet national quality regulations and for ineffective and obsolete products (Articles 14 and 16).

B.

Calculation of Costs and Profit

Article 5

Principle

(1) The following requirements apply to the determination of the costs serving as the basis of the industrial prices for items to be introduced to production:

a) When calculating costs as the incorruptible criterion for the efficacy of enterprise measures oriented to the constant improvement of efficiency, only such costs are to be used as are inherently calculable and the amount of which corresponds to the genuinely achievable performance capacity of the enterprises of that industry or product group. To be consistently included are the results of the work with the record book of workers' performance, the functional value/cost analysis, cost and performance comparisons, product group work and other tried and tested methods of socialist management.

   The provisions of Attachment 1 apply to the calculability of costs by type and amount. Types or groups of costs not explicitly designated calculable in this attachment may not be calculated. The most important non-calculable costs are listed in Attachment 2.

b) Costing must be based on normatives and norms for the consumption of embodied and live labor. These normatives and norms must correspond to the latest scientific knowledge and best experiences. To be used, therefore, are the

   -- supraenterprise cost normatives as per Article 6.

   -- Enterprise norms, indices and surcharge rates for the calculation of costs as per Articles 7-9.

c) To be used for the profit calculation is the respective assumed and centrally confirmed profit surcharge. Its ascertainment and application must be based on the central requirements stipulated in Article 11 and Attachment 3.

(2) The calculation of industrial prices must begin with the expenditure required to obtain the planned quality of the products (including the stipulated design). This expenditure is to be determined on the basis of requirements on the nature and manufacture of the products established in quality regulations and operating provisions as well as in other legal regulations (such as general performance conditions and factory safety regulations).

(3) Enterprises must record the calculable expenditure on the basis of the cost and industrial price calculation. They must prepare the cost and industrial price calculation as per the calculation system assigned them by the special calculation guidelines or other legal regulations on the basis of the schedule as per Attachment 4.

(4) The drafting and establishment of supra-enterprise normatives and additional enterprise rates for costs to be accounted for indirectly must normally proceed for all these costs simultaneously, in preparation of planned industrial price changes, but at least once in the course of a five-year plan period. Exempted from this requirement are the additional rates for cost calculation as per Article 9 Paragraphs 2 and 3, which are to be annually fixed on the basis of the plan. Independent of the measures as per sentences 1 and 2, enterprises are obligated to submit an application for the revision of the additional rates for costs to be accounted for indirectly if substantial changes in the structure and amount of costs arise due to

-- Fundamental changes in the technological process (automation, mechanization),

-- Rearrangements of production or significant changes in assortment,

-- Enterprise amalgamations, enterprise splittings up or enterprise expansions,

-- Significant changes in the bases of additional rates

or other reasons. If, in exceptional instances, only some additional rates need to be revised, the decision is up to the manager of the competent branch office of the Office for Prices, following an application by the general director of the combine.

(5) As per the provisions of this Article and Articles 6-10 as well as Attachments 1 and 2, the drafting and establishment of supra-enterprise normatives and additional enterprise rates for costs to be accounted for indirectly are to be based on

-- The special instructions to be issued by the director of the Office for Prices or

-- The regulations issued on the basis of the provisions of the special calculation guidelines.

For the purpose of drafting and establishing supra-enterprise normatives and additional enterprise rates for costs to be accounted for indirectly, the assignment of the types of costs to the various groups of costs must proceed broken down by cost headings or cost unit groups, as per the causal principle in accordance with cost planning and reporting. If, as a result of the consistent application of the causal principle in the drafting of normatives and additional rates, minor differences arise with regard to the amounts of the normatives and additional rates between the cost headings or cost unit groups, these are to be removed by rounding off or averaging at the time of formation. The pertinent decision is made by the manager of the competent branch office of the Office for Prices on the suggestion of the general director of the combine.

Article 6

Supra-Enterprise Cost Normatives

(1) For the calculation of costs, the general directors of the combines must draft supra-enterprise normatives for direct technological costs and for costs to be accounted for indirectly as the expression of the socially required consumption of embodied and live labor. At the same time they must ensure that the supra-enterprise cost normatives correspond to the performance capacity of the respective industry or product group, genuinely achievable by the utilization of all reserves. After confirmation by the competent state organs,[2] these normatives must be assigned as obligations to the enterprises by the issue of special calculation guidelines or other price regulations.

(2) To be fixed in particular as supra-enterprise normatives for technological costs are:

-- Materials cost normatives, taking into account central quality regulations and operating provisions, on the basis of technically and economically established materials consumption norms or normatives of materials utilization;

-- Wage cost normatives on the basis of time normatives or other supra-enterprise performance indices as per the provisions of Articles 75-78 of the GDR Labor Code of 16 June 1977 (GBl I No 18 p 185).

The quantitative appropriations for basic materials and time costs are to be given the value of the industrial prices established in legal regulations or in the wage rates of the wage scales in effect.

(3) Supra-enterprise normatives for costs to be accounted for indirectly must be fixed in particular for

-- The costs of research and development;

-- Indirect technological costs and non-technological costs (overheads), if the type of the services to be performed (assemblies, for example) raise approximately the same demands on the enterprises with regard to production conditionssuch as the use of production equipment.

(4) Normally all enterprises of the respective product group must be involved in the drafting of supra-enterprise cost normatives. In exceptional instances, especially if the majority of enterprises are not members of the combine responsible for drafting supra-enterprise cost normatives, the draft and confirmation of these normatives may be based on the costs of representative enterprises. In this case care must be taken that

-- At least 80 percent of all the costs to be normed and the pertinent determination basis as well as

   -- All centrally managed enterprises and a representative selection of locally managed enterprises

are involved.

Article 7

Enterprise Norms, Indices and Surcharge Rates for the Calculation of Costs

(1) Unless they have been assigned supra-enterprise normatives, enterprises must calculate costs on the basis of enterprise norms and indices for direct technological costs and enterprise surcharge rates for costs to be accounted for indirectly. On the basis of the plan they must guarantee

-- The best possible and demand-appropriate product quality,

-- The rational utilization of productive funds,

-- The best possible materials management,

-- The appropriate deployment of the labor force,

-- The application of an economical tecnology based on lot or batch sizes consonant with the actual conditions.

(2) Enterprise directors must confirm observance of the requirements as per Article 5 Paragraph 1 regarding the calculation of direct technological costs whenever they submit a price application. These costs are subject to strict central inspection when price applications are examined and at the time of the periodical audits of combine and enterprise costing and pricing by the branch offices of the Office for Prices.

(3) The calculation of the costs to be accounted for indirectly must proceed on the basis of the surcharge rates fixed by the combines and checked by the branch offices of the Office for Prices.

Article 8

Contribution to Social Funds

(1) Enterprises which must pay the contribution to social funds as per the legal regulations,[4] calculate this contribution in the amount of the centrally fixed normative as an element of their prime costs.

(2) Enterprises as per Paragraph 1 must base the inclusion of the contribution to social funds in the draft of industrial prices on:

-- The special regulations issued by the director of the Office for Prices, or

-- On the provisions of the special calculation guidelines issued on the basis of these regulations.

Article 9

Costs of Rejects, Reworking and Warranty Services

(1) For the purpose of a resolute orientation to faultless work and the removal of the losses to the national economy involved by the costs of

rejects and reworking, the costs of rejects and reworking are in principle not calculable.

(2) The regulation as per Paragraph 1 is to be gradually enforced by means of the annual economic plans. Based on the fixed rates of reduction,

-- The costs of rejects (excluding technologically caused utilization losses) and costs of reworking as well as

-- The costs of rejects by technologically caused utilization losses

are calculable in the amount allocated by the plan.

(3) The costs of warranty services must be systematically lowered by means of scientific-technological advances. The costs of (domestic) warranty services are calculable in the amount fixed in the plan.

(4) The general directors of combines must annually fix enterprise surcharge rates for the calculation of costs as per Paragraphs 2 and 3 by their subordinated enterprises; these surcharge rates must be checked by the branches of the Office for Prices.

Article 10

Cost Verification

(1) No industrial price may be drafted and centrally confirmed without exact knowledge of the costs (including the costs of the intended international socialist specialization and cooperation of components and subassemblies). which represent the most important yardstick for the efficacy of all intensification measures. Costs must therefore be exactly verified in the course of drafting the industrial prices.

(2) Cost verification must provide the preconditions for

-- Appraising the development of costs of items to be introduced to production relative to the costs of comparable products, and

-- In good time discovering the causes of excessive costs (for example by an analysis of the enterprise reproduction process, the application of socialist management methods such as enterprise comparison and functional value/cost analyses, by the evaluation of the results of recalculations, and so on) and drawing conclusions for the improvement of the cost/profit ratio.

(3) Cost verification includes

a) The calculable costs of the item to be introduced to production. They must always be verified by a cost and industrial price calculation. Specific types of verification for relative prices must be stipulated in the special calculation guidelines;

b) The costs of the comparable product as per recalculation or--if such a product cannot be defined--the costs of the respective unit cost group as per unit costing;

c) The comparison of the costs of the item to be introduced to production (as fixed in special calculation guidelines) with those of the comparable item or cost unit group on the basis of indices of cost development as per Attachment 5. If mandatory indices are issued by the director of the Office for Prices, these may not be exceeded.

Article 11

Profit

(1) When preparing the cost and industrial price calculation, enterprises must calculate profits in the amount of the assumed profit margin assigned them with mandatory effect in the special calculation guidelines or other price regulations and centrally confirmed. In this context the assumed profit margin must relate

-- In the case of indirect assignment to the respective basis fixed for the use of this assignment procedure (for instance processing costs);

-- In the case of direct assignment to the quantity unit of the respective product or product group fixed as the basis.

The amount of profit arising as a result is the assumed profit to be incorporated in the cost and industrial price calculation for the item to be introduced to production.

(2) For product groups in their sphere of responsibility with regard to prices, general directors of combines must draft assumed profit margins for central confirmation on the following bases:

a) The normative profit rate mandatorily assigned the respective industry by the Office for Prices (rate of fund profitability);

b) The productive funds--stocks of fixed and circulating assets--as per Section I of Attachment 3, required for the rational implementation of the production process at a high standard of fund and materials management, labor productivity and shift utilization;

c) The principles for the assignment of profit in the formation of industrial prices as per Section II of Attachment 3 and the special instructions issuto that effect by the director of the Office for Prices.

C.

Stimulation of the Output of Products of the Highest Possible Efficiency and Quality

Article 12

Extra Profit

(1) Differentiated extra profits consonant with the economic efficiency achieved must be centrally established for new items to be introduced to production and involving low costs, great economic benefit, great export profitability, low materials consumption and a greater extent of processing. Economic efficiency is to be ascertained as follows:

a) For items for which a tasking workbook with upper cost and price limits needs to be prepared, on the basis of

   -- the expenditure (calculable prime costs plus the centrally confirmed assumed profit margin) and

   -- The upper limit for the enterprise price confirmed as per the legal regulations[3];

b) For specially designated items, for example components for which the indices of price development are assigned with mandatory effect, on the basis of

   -- The expenditure (calculable prime costs plus the centrally confirmed assumed profit margin) and

   -- The enterprise price to be ascertained on the basis of the indices of price development, assigned with mandatory effect;

   The items and indices are established by the director of the Office for Prices.

c) For all other new items to be introduced to production as per the provisions of Attachment 6.

(2) For the purpose of the central establishment of extra profits as per Paragraph 1, economic efficacy must always be verified for the individual items. If such verification would result in excessive administrative costs of items in one product range, the director of the Office for Prices may, at the suggestions of the industrial ministers, issue special instructions on the verification of efficacy and the grant of extra profits.

(3) The application for and establishment of extra profits must proceed on the basis of efficacy verification as per Paragraphs 1 and 2, in accordance with

-- The special regulations issued by the director of the Office for Prices, or

-- The instructions issued on the basis of these regulations in the special calculation guidelines.

(4) The extra profit must be awarded with a time limit. The normal period of time is 3 plan years.

Article 13

Profit Surcharges to Stimulate National Objectives

(1) Centrally established profit surcharges are to be used to stimulate the output of products of great importance for the supply of the public and the national economy, such as

-- Luxury items,
-- Delicacies,
-- Other high-quality consumer goods,
-- Replacement parts.

The profit surcharge for replacement parts amounts to 50 percent of the assumed profit margin. The director of the Office for Prices will announce the other profit surcharges separately.

(2) An additional profit arising from profit sharing (profit surcharge) may be agreed for products with great economic efficacy, for which price surcharges may be agreed or agreed prices formed consonant with legal regulations. Applicable in detailare the provisions of No 4 letter b of Attachment 7 or No 5 Paragraph 2 of Attachment 11.

Article 14

Profit Markdowns for Inefficient and Obsolete Products

(1) To speed up the renewal of production, profit markdowns are to be established for inefficient and obsolete items. The following applies to the preparation of the decision on profit markdowns:

a) The Minister for Foreign Trade, the president of ASMW and the director of the Office for Industrial Design must semi-annually draw up product-concrete proposals for fixing profit markdowns for inefficient and obsolete items and submit them to the director of the Office for Prices.

b) At the time the tasking workbooks are confirmed and on the basis of proposals by the ASMW, the foreign trade enterprises and the Office for Industrial Design, the obsolete products are to be listed, which will be subject to profit markdowns.

The director of the Office for Prices fixes the profit markdowns.

(2) Profit markdowns for items as per Paragraph 1 will be so fixed that enterprises will not retain more than 50 percent of the centrally confirmed assumed profit margin for such products. The enterprise prices of the products are to be retained and, as per the legal regulations,[5] enterprises must pay over the profit markdowns as if they were profits not earned by own performance.

Article 15

Price Surcharges for High-Quality Products

(1) To stimulate the output of products confirmed by the competent state organs to be of high quality, the following price surcharges will normally apply (relative to the enterprise price):

-- For products with the "Q" quality mark	2 percent
-- For products with the description "outstanding design" (SL)	2 percent

However, in contradistinction to the above, the following price surcharges apply

-- For plant with the "Q" quality mark	0.4 percent
-- For tools and equipment with the description "SL"	0.5 percent.

Products granted by the state the designation "good design," benefit from the same price surcharges as products with the description "SL." If the same products are also issued the description "SL." only the surcharge for "SL" applies.

(2) With respect to capital equipment, the price surcharges as per Paragraph 1 are normally to be fully assigned also to the industrial sales prices.

(3) The price surcharges for the "Q" quality mark and the description "SL" are applicable for the period of validity of the test certificates. The price surcharge for the designation "good design" is valid for 1 year. Subsequently the industrial prices of these items must be reduced by the amount of the respective price surcharge.

Article 16

Price Markdowns and Industrial Prices for Products That Fail to Meet Quality Regulations

(1) If the quality on which the industrial prices of the products are based (including design quality) fails to be achieved or is no longer achieved, the manufacturers are obligated--if output of these products may continue--to proceed to a price markdown in consideration of the decline in quality. The following applies with respect to the amount of this price markdown:

a) Price surcharges in effect are dropped from the time of withdrawal for products which have the "Q" quality mark or the description "SL" withdrawn by the competent state organs but without other quality reductions being present.

b) If products fail to meet the quality instructions in quality regulations and operating provisions, and if, for economic reasons, production or delivery must continue as per the legal regulations on the basis of a special dispensation by the ASMW or the respective competent state organ, the manufacturers must be advised of the noted quality reduction in connection with the issue of the special dispensation. The manufacturers are obligated on their own to proceed to a price markdown in the amount of the quality reduction noted unless legal regulations prescribe otherwise, or the managers of the competent branch office of the Office for Prices issue other instructions. This applies mutatis mutandi if the design standard of products no longer meet international standards.

c) If the amount of price markdowns for quality reduction is fixed in legal regulations, these latter apply.

d) If the provisions as per letters a-c do not apply to a specific quality reduction, the contract partners must agree a price markdown in the amount of the quality reduction noted by them. The customer's right to decide the type of warranty service is not affected thereby.

(2) The price markdowns must be deducted from the enterprise price and--in the case of capital goods--normally from the industrial sales price, too. If for important national reasons the markdown from the industrial sales price needs to be omitted, the pertinent decision must be made by the managers of the competent branch offices of the Office for Prices on the recommendation of the general directors of the combines or the managers of the organs responsible for state quality control. If the industrial sales price is not reduced, the difference between the industrial sales price and the enterprise price reduced by the price markdown must be paid to the state budget as a product-linked levy.

(3) The competent organs may fix industrial prices for new items to be introduced in production, which do not meet quality regulations and operating provisions, or which are manufactured in divergence from the preceding regulations, if the divergence is admissible or a special or exceptional dispensation has been issued by the competent state organs, consonant with legal regulations. The period of validity of the industrial prices of these products must be restricted to the time-wise, quantitative or order-related limitation of the divergence or the special or exceptional dispensation.

Article 17

Further Regulations on Price Surcharges and Price Markdowns

(1) Price surcharges or price markdowns may be agreed for undercutting or exceeding delivery or performance dates if delivery or performance dates are

established in legal regulations (such as general performance terms), and the partners significantly undercut or exceed them. The respective tolerances must be fixed in the respective legal regulations. Not affected thereby is the applicability of price surcharges for short-term performances, the amount of which is fixed in legal regulations (such as rush surcharges).

(2) Price surcharges of up to 12 percent may be agreed if order dates fixed in legal regulations (such as supply orders), relating to a quarter or a shorter priod of time,are exceeded.

(3) Price surcharges for quantity shortfalls may be agreed if this is stipulated in the special calculation guidelines or other legal regulations. If legal regulations fix the amount of price surcharges for quantity shortfalls, these amounts apply.

(4) The amounts of price surcharges and price markdowns as per Paragraphs 2 and 3 are to be agreed as per the provisions of Nos 3 and 4 of Attachment 7

(5) General terms for the work with price surcharges and price markdowns with respect to industrial prices are settled in Attachment 7.

Article 18

Optional Arrangements

Applying to optional arrangements are the provisions issued thereto in legal regulations.

D.

Drafting of Industrial Prices

Article 19

Methods of Price Formation

(1) For the rational organization of the drafting of industrial prices consonant with central requirements regarding

-- The calculation of costs and profits as per Section B, and

-- The stimulation of the output of products of the best possible efficiency and quality as per Section C,

enterprises are to be assigned centrally confirmed price formation methods for the various product groups, such as

-- Methods of relative price formation as per Paragraph 2,

-- Methods for the formation of calculation prices as per Paragraph 3.

The general directors of combines are obligated to draft the most appropriate price formation methods for the product groups of their sphere of responsibility and to define their scope and the terms for their application. Following confirmation by the director of the Office for Prices they are to be conveyed to the enterprises by way of special calculation guidelines or other price regulations. The enterprises are obligated to exclusively draft industrial prices on the basis of the price formation methods assigned them with mandatory effect and centrally confirmed.

(2) The drafting of price formation methods is to be based on the following basic types of relative price formation as per Attachment 8:

a) Parameter prices
b) Price series
c) Sectional prices and sectional price normatives
d) Margin calculation.

Priority is to be accorded the application of the methods as per letters a-c. The use of methods of relative price formation not corresponding to these basic types requires the permission of the director of the Office for Prices. Before submission to the director of the Office for Prices, the proposals must be agreed with the main customers.

(3) If the methods of relative price formation are not applicable to specific product groups or products, the enterprises must draft the industrial prices as calculation prices. Such product groups and products must be set out in special calculation guidelines; in connection with this the enterprises must be instructed

-- How to ascertain the expenditure for the manufacture of the new products by the cost and industrial price calculation on the basis of Section B, and

-- How extra profits as per Article 12 are to be included in the calculation price with respect to new and highly effective items to be introduced in production.

(4) If appropriate, price formation methods may be linked (in the form of unit calculations, for example).

(5) If new items in a product group, the industrial prices of which are to be formed as relative prices, are introduced in production but do not meet the conditions for the use of the existing method of relative price formation, these methods must be added to as per the provisions of Paragraph 1.

(6) With respect of means of production, for which product-related levies or product-related price subsidies are to be fixed as per legal regulations,[6] the normal procedure is to be as follows:

-- Enterprise prices are to be drafted as per centrally confirmed price formation methods;

-- Based on the enterprise prices, industrial sales prices are to be ascertained by the addition of the product-related levies or the deduction of the product-related price subsidies.

Applicable individually are the instructions in the special calculation guidelines.

(7) If, in exceptional cases, national objectives (such as the enforcement of appropriate substitution processes or the output of consumer goods in enterprises manufacturing capital equipment) are not adequately assisted by the centrally confirmed price formation methods, the manufacturing enterprise must draft industrial prices, with the agreement of the combine or at the instigation of the competent ministry or the Office for Prices, that meet these requirements. On the recommendation of the industrial ministers, the director of the Office for Prices decides the amount of the industrial prices.

(8) The general directors of combines are obligated to review the respective price formation methods used and decide whether they still meet the objectives as per Article 4. These reviews must be based on cost verifications and recalculations by the enterprises and the results of price analyses. Reviews must be carried out especially in connection with the preparation of planned industrial price changes.

(9) To be agreed as provisional prices as per Article 50 Paragraph 2 of the Contract Law are industrial sales prices likely to arise on the basis of the centrally confirmed price formation methods. The fixed upper price limit may not be exceeded with respect to products for which a tasking workbook is to be prepared with upper limits for costs and prices.

Article 20

Principle of Price Formation

(1) Industrial prices must be formed on the principle "anything that benefits the national economy, must also benefit the combines and enterprises." Industrial prices must therefore be fixed on the basis of costs and taking into account the benefits of the new items to be introduced in production, so that both the manufacturing enterprise and the user derive benefits from the manufacture and use of the products.

(2) The formation of industrial prices corresponds to the price formation principle as per Paragraph 1 if

-- The industrial prices were drafted on the basis of the centrally confirmed price formation methods as per Article 19, and

-- The confirmed upper price limit is not exceeded for items developed on the basis of tasking workbooks with upper limits for costs and prices, or

-- The mandatory indices of price development are observed or undercut for specially determined products (components, for example). The director of the Office for Prices will stipulate the products and indices.

(3) If, in exceptional instances, the objectives of the tasking workbook are not observed and production of the items established nevertheless, the director of the Office for Prices will decide the price, upon application by the competent industrial minister. If the industrial price ascertained as per Article 19 exceeds the upper price limit, the industrial minister must, before submission, coordinate the application with

-- The president of the ASMW

-- The director of the Office for Industrial Design

-- The Minister for Science and Technology with regard to tasks of the state plan science and technology,

-- The chairman of the State Planning Commission with regard to tasks of the state plan science and technology

-- The Minister for Foreign Trade with regard to export products

-- The Minister for Trade and Supply with regard to consumer goods.

(4) If, in exceptional instances, the mandatory indices of price development are exceeded by the industrial prices ascertained as per Article 19, the director of the Price Office decides the industrial prices upon application by the industrial ministers.

V.

Special Regulations on Industrial Price Formation

A.

Formation of Industrial Prices for Rationalization Aids, Industrial Robot Equipment and Special Machines

Article 21

Industrial Prices for Rationalization Aids[8]

(1) Industrial prices must purposefully and resolutely encourage socialist intensification and rationalization. To realize this objective, industrial prices for rationalization aids must be formed as per the provisions of Paragraphs 2-7.

(2) Industrial prices for rationalization aids are normally to be formed on the basis of the centrally confirmed price formation methods as per Article 19 and the price formation principle as per Article 20.

(3) To encourage in-enterprise production and the use of rationalization aids by low industrial prices, the industrial ministers and general directors of combines may issue instructions on the formation of industrial prices diverging from the provisions of Paragraph 2 and applicable to the rationalization aids manufactured and supplied in the respective sphere of responsibility. The industrial ministers and general directors of combines may, in particular

-- Lower the calculable costs, such as normatives and surcharge rates for costs to be accounted for indirectly;

-- Set the assumed profit surcharge below the normative profit rate or exclude the profit calculation;

-- Restrict or exclude the claim for extra profits.

The industrial ministers and general directors of combines may decide that the lower industrial industrial prices are applicable only to specific customers, specific numbers or specific periods, and that industrial prices as per Paragraph 2 are to be charged for rationalization aids manufactured over and above.

(4) The instructions as per Paragraph 3 may be issued for rationalization aids to be introduced in production as well as to rationalization aids already in production.

(5) The industrial ministers and general directors of combines may decide that their instructions as per Paragraphs 3 and 4 apply also to rationalization aids used outside the sphere of responsibility of the respective ministry or combine.

(6) If the industrial ministers and general directors of combines do not issue instructions as per Paragraphs 3 and 4 nor a decision as per Paragraph 5, the confirmed surcharge rates for costs to be accounted for indirectly are normally to be used for the calculation of the industrial prices. If the use of these surcharge rates fails to meet the national objective of price formation for rationalization aids (especially if significant differences arise between the confirmed surcharge rates and the costs to be accounted for indirectly and actually arising), the following applies:

-- Enterprises manufacturing rationalization aids in addition to their main production must, following agreement with their customers, revise the surcharge rates for costs to be accounted for indirectly. If no agreement is achieved, the decision is up to the general director of the combine to which the manufacturing enterprise is subordinated.

-- Enterprises manufacturing rationalization aids as their main production according to plan, must apply to the competent combine for reconfirmation of the surcharge rates for costs to be accounted for indirectly.

(7) If, in exceptional instances, the upper price limits are exceeded by industrial prices, drafted on the basis of the provisions of Paragraphs

2-6, for rationalization aids developed on the basis of tasking workbooks with upper cost and price limits, the decision regarding the industrial prices is to be made as per Article 20 Paragraph 3 with regard to tasks of the state plan science and technology. With respect to all other tasks involving research and development--divergent from the responsibility assigned in Article 20 Paragraph 3the industrial prices are to be decided by

-- The industrial ministers for rationalization aids manufactured in the respective ministry's sphere of responsibility and exclusively used therein;

-- The general directors of combines for rationalization aids manufactured and exclusively used in the combine.

Article 22

Industrial Prices for Industrial Robot Equipment[9]

(1) To be encouraged by the industrial prices is the realization of the objective of producing industrial robot equipment at low costs and prices so as to guarantee that manufacturing costs are earned by their use within normative delays.

(2) Industrial prices for industrial robot equipment must be formed on the basis of the provisions of Article 21 (Industrial Prices for Rationalization Aids). To be safeguarded at the same time is the observance or undercutting of the normative delay for the earning of the manufacturing costs upon use of the industrial robot equipment by the user. This requirement is deemed to have been met

a) For industrial robot equipment with tasking workbook:
Upon observance or undercutting of the upper price limit

b) For industrial robot equipment without tasking workbook:
Upon observance or undercutting of the industrial price to be ascertained on the basis of the benefit accruing to the user upon observance of the normative delay for the earning of the manufacturing cost. The following formula applies:

$$P1 = \frac{Ko - K1}{\frac{1}{ND} + E_N}$$

Interpretation:

P_1 Industrial price guaranteeing the earning of the manufacturing costs in the normative delay

$K_o K_1$ Annual direct costs[10] upon use of the basis of comparison or the industrial robot equipment, relative to the annual volume of products manufactured with the aid of the industrial robot equipment, excluding costs of depreciation

ND Normative life of the industrial robot equipment according to the register of rates of depreciation for fixed assets

E_N Expressed as decimals, the set delay for the earning of the manufacturing costs (normative efficiency requirement on the use of the industrial robot equipment - normative for the fund profitability to be achieved -)

If the industrial robot equipment replaces earlier means of production, the formula must be supplemented by the industrial sales prices of these means of production (P_o) as follows:

$$P1 = Po + \frac{Ko - K1}{\frac{1}{ND} + E_N}$$

(3) If, in exceptional instances, the normative delay for the earning of the costs is exceeded due to the industrial prices drafted on the basis of costs, the decision on the amount of the industrial price is to be made analogous with the provisions of Article 21 Paragraph 7.

Article 23

Industrial Prices for Special Machines, Special Apparatus and Special Tools

(1) Industrial prices for special machines, special apparatus and special tools must be formed as per the regulations on price formation methods and the price formation principle (Articles 19 and 20), taking into account the provisions of Paragraphs 2-5.

(2) Special machines, special apparatus and special tools in the meaning of these regulations are means of production designed at the special request of the customers without preparation of a tasking workbook and without any testing of production or operating samples, and which are turned out as single items or in such small numbers that they do not bear the features of series production (not even small series production). Products are also deemed special machines, if mass produced subassemblies are used for their manufacture. Special machines, special apparatus and special tools are part of the industry-typical output of the manufacturers. Rationalization aids and industrial robot equipment are not special machines in the meaning of these regulations.

(3) If the manufacture of products as per Paragraph 2 gives rise to costs from risks caused by the rapid development and change of the technique, technology or materials, components or processes used, the industrial minister may apply to the director of the Office for Prices, requesting a risk fund to be set up at the manufacturing enterprises so as to meet these costs.

(4) Costs from risks as per Paragraph 3 are calculable in the amount of the allocations to the risk fund. Allocations to the risk fund are to

be fixed relative to the complexity of the products as per Paragraph 2 in differentiated amounts up to a maximum 10 percent of prime costs and to be taken into account as risk surcharge when the price is formed. The regulations of Attachment 9 apply to the formation and use of the risk fund.

(5) Industrial prices formed with the inclusion of the risk surcharge as per Paragraph 4 do not apply to the repeated manufacture of the products. In these cases the industrial prices are to be formed without the risk surcharge.

B.

Industrial Price Formation in the Case of Production Shifts, for Working Models and Production Samples and for Products of Trial Runs

Article 24

(1) If the manufacture of products including subassemblies and component parts is shifted to other enterprises due to specialization, cooperation or the establishment of a central manufacturing facility, the following principles apply to the formation of industrial prices:

-- For production shifts the principle applies that the same prices are retained for the same products.

-- If no industrial prices exist for subassemblies, component parts or services, the industrtial price is to be so formed on the basis of former costs, that benefits arise from the production shift for both the manufacturer and the customer.

-- If the shift of production results in higher costs to the manufacture of the product, this factor must be taken into account when the decision on the production shift is made. If there is a benefit to the national economy from the production shift even when taking the higher costs into account, these higher costs may be reflected in the industrial price. In connection with the production shift, the decision on this point is up to the industrial ministers in coordination with the director of the Office for Prices.

The preceding regulations apply even if no production shift in the meaning of the legal regulations[11] takes place, but a transfer and take-over of production occurs between combines and enterprises for a limited time but no longer than the period of an annual economic plan.

(2) If working models or production samples of capital equipment are sold while no industrial prices exist for these items, industrial prices must be formed as agreed prices. In the case of capital equipment, these instructions normally also apply to products of trial and test runs as well as zero series. However, if, in consideration of particularly great value or large volume or other reasons, combines think this necessary, they may request a price application for such products.

(3) The industrial prices to be formed as per Paragraph 2 may not exceed the upper price limits of the products to be developed.

C.

Other Special Regulations on Industrial Price Formation

Article 25

Specific Instructions on Component Supplies Issued by the Industrial Ministers and Combine General Directors

(1) The regulations of Articles 19 and 20 normally apply to the formation of industrial prices for component supplies.

(2) To raise the efficacy of industrial prices, industrial ministers may, for component supplies remaining in their sphere of responsibility and general directors of combines for component supplies between combine enterprises, set industrial prices lower than the industrial prices to be formed as per this order, if by this means

-- Cooperation relations are organized more efficiently in terms of the national economy,

-- Specialization processes are speeded up,

-- Central manufacture is organized more rationally and cheaply,

-- The pressure to lower prime costs is reinforced,

and the rapid implementation of scientific-technological advances stimulated thereby. The provisions of Article 21 Paragraph 3 sentences 2 and 3 apply mutatis mutandi to the decisions to be adopted to this effect by the industrial ministers and general directors of combines.

(3) The industrial ministers and general directors of combines may decide that the industrial prices formed for component supplies as per Paragraph 2 may also apply to

-- The formation of industrial prices for final products,

-- Component supplies to enterprises outside the sphere of responsibility of the industrial ministry or combine.

(4) The fixing of higher industrial prices than admissible according to the regulations of this order requires the permission of the director of the Office for Prices. If permission is granted, the director of the Office for Prices also issues a decision on measures as per Paragraph 3.

(5) The preceding regulations apply to new component supplies to be introduced in production as well as to component supplies already in production.

(6) The general directors of combines carry out the tasks assigned them in the preceding provisions even if the respective product groups are not in their sphere of responsibility in the field of industrial prices. They must inform the combines competent for the product group of their decisions. This applies analogously to the industrial ministers with respect to the combines subordinated to them.

Article 26

Profit Sharing by the Customer With Respect to Component Supplies and Final Products

(1) If, by his recommendations, the customer contributes to the implementation of intensification measures relating to the component supplies and final products acquired by him, especially their cheaper manufacture, the manufacturer must normally grant him a 50 percent share of the profit arising from such recommendations. The objective of the customer's collaboration and the performance to be contributed by him, the procedure of profit ascertainment and the extent of profit sharing are to be contractually agreed.

(2) In the case of items already in production (items for which legal prices are alreay in effect), the contract partners themselves decide the amount and duration of profit sharing and other contractual terms. If nothing else has been agreed with respect to profit sharing, the difference between the prime costs arising to the manufacturer for the production of the component supplies or final products before or after the implementation of the intensification measures related to a year of full efficacy, is deemed to be the profit with respect to items already in production. In the case of new items to be introduced in production, and for which no legal prices are yet available, the Office for Prices issues the necessary decision following the appropriate application.

(3) Profit sharing with respect to component supplies may take the form of

-- Profit sharing while the industrial price of the component supplies remains unchanged: When drafting the industrial prices for products manufactured by him, the customer is then entitled to calculate the full amount of the industrial price of the components (that is without deducting his share of the profit);

-- Establishing a price discount: In this case the customer may calculate only the actually payable industrial price of the component (in other words, confirmed industrial price minus discount granted for the share of the profit).

The contract partners or the price organs decide the type of profit sharing.

(4) Profit sharing with regard to final products must be granted in the form of a price discount.

(5) The director of the Price Office issues detailed instructions on the implementation of the preceding regulations.

Article 27

Industrial Prices and Price Surcharges for Components Supplied for Research and Development Tasks

(1) If component supplies are needed quickly and/or in small numbers or quantities in order to carry out research and development tasks, the industrial prices for such supplies--if no prices have yet been fixed for them--are to be formed as agreed prices. If prices are already fixed for these products, the contract partners are entitled to agree price surcharges.

(2) The agreed prices as per Paragraph 1 are to be based on:

-- The calculable costs of the manufacture of the products including the costs arising from the rush manufacture (for example the additional retooling of machines and plant) or from manufacture in small numbers or small quantities (by individual production, for example);

-- The centrally confirmed assumed profit surcharge;

-- A share in the profit arising for the customer. The share of profits may not exceed 50 percent of the profit and may not amount to more than 50 percent of the centrally confirmed assumed profit surcharge.

(3) The amount of the price surcharges as per Paragraph 1 is to be agreed as per the provisions of Nos 3 and 4 of Attachment 7.

VI.

Planned Changes of Industrial Prices

Article 28

(1) The planned industrial price changes decided by the Council of Ministers must be so prepared on the basis of legal regulations,[12] that the new industrial prices may be the basis for the drafting of the respective economic plan.

(2) The ascertainment of the new industrial prices must normally be based on prime costs, productive funds and the quantities to be produced in the introductory year of the new industrial prices. The provisions of Articles 5-11 apply to the ascertainment of prime costs and productive funds, also to the assignment of the assumed profit surcharge to the products. In this context care must be taken to ensure that the new industrial prices are based on the expenditure corresponding to the genuinely achievable performance capacity in the respective industry or product group as the expression of the socially required expenditure of labor (calculable prime costs plus centrally confirmed assumed profit surcharge).

(3) Relations of industrial prices, justifiable in economic terms, must be established within and between the product groups. The new industrial prices may be proposed in divergence from the socially necessary expenditure if this is required to implement economic objectives.

VII.

Obligation to Draw up Recalculations and Provide Information on the Bases of Calculation Used to Arrive at the Industrial Prices

Article 29

Recalculations

(1) Enterprises must recalculate the industrial prices for their most important products at least once a year. Applicable for the specification of these products are the guidelines as per Article 119 of the Order of 20 June 1975 on Accounting and Statistics in Enterprises and Combines (Special Issue No 800 of the GESETZBLATT). The recalculations must include at least 50 percent of the volume of industrial goods production at enterprise prices (in some instances also of nonindustrial goods production). If recalculation in the preceding volume is possible only at very high administrative costs, due to the multitude of product types manufactured, the special calculation guidelines may arrange for special instructions, such as the recalculation of representative products and product groups and the acknowledgment of cost unit calculations as recalculations in the meaning of this regulation.

(2) In accordance with the provisions of the special calculation guidelines, the enterprises must submit to the combine their recalculations together with the price application or periodically at fixed intervals.

(3) At the request of the competent organs (including the central price control organs), the enterprises must also draw up recalculations for the purpose of checks, analyses and the preparation of planned changes of industrial prices.

(4) Recalculation as per Paragraphs 1-3 must proceed on the basis of the calculation schedule applicable to costing and industrial price calculations. Care must be taken to ensure that it is possible to carry out a comparison between the calculation bases used for costing and industrial price calculations, including the centrally confirmed assumed profit surcharge, on the one hand, and the actual costs and actual profits on the other.

(5) To be normally verified in the recalculations as per Paragraphs 1-3 are the total prime costs of the product on the basis of the actual prime costs shown in accounts and statistics--provided that they are of a calculable nature. Recalculation with normative prime costs and the divergences therefrom is permissible. Costs that are by their nature not calculable must be deducted; for the purpose of simplification, the procedure here may be as per Paragraph 6. The special calculation guidelines may stipulate that the recalculation is drawn up only up to direct technological costs on the basis of the actual prime costs (or the normative prime costs and the divergence therefrom), while indirect technological costs and overheads are accounted for on the basis of plan surcharge rates. If this meets the specific conditions of an industry, recalculation may be conducted for processes also.

(6) For the purpose of simplification, the special calculation guidelines may also stipulate that non-calculable costs as per Attachment 2 are to be deducted in the recalculation as a percentage markdown representing the average non-calculable costs arising in the respective industry. The markdown may be arranged also as being applicable only for specific non-calculable costs as per Attachment 2, while the other non-calculable costs--especially those sharply diverging between enterprises--are deducted in the actual amounts.

(7) Provisions in other legal regulations concerning the drawing up of recalculations are not affected.

Article 30

Provision of Information on the Bases of Calculation Used to Arrive at the Industrial Prices

(1) If enterprise begin to produce items, the industrial prices of which are listed in price catalogues and price lists in effect, they are entitled to ask the competent combine for the bases of calculation of these items' industrial prices for the purpose of cost and enterprise comparison as the basis of efficiency raising measures.

(2) Purchasers of products are entitled to ask their suppliers for verification of the bases of calculation of the industrial prices of contractually agreed deliveries, if the industrial prices

-- Were established on the application of the enterprises, or

-- Are to be fixed by the enterprises themselves according to calculation instructions, price calculation instructions or agreed prices.

Verification may be carried out by allowing the purchasers to inspect the records on which the suppliers' industrial price calculations are based. Purchasers in the meaning of this regulation are GDR combines and enterprises, social facilities and state organs. Suppliers in the meaning of this regulation are the enterprises subject to the scope of this order. The obligation to verification persists only within the legal period for which price records need to be preserved. Verification must proceed in observance of the regulations on the protection of national and service secrets.

(3) If the purchasers note inadmissible bases of calculation for the price application or the enterprise's own price formation, the suppliers are obligated promptly to correct the industrial prices fixed by themselves; as for all other industrial prices, they must request immediate correction by the responsible organs.

(4) If suppliers fail to meet their obligation as per Paragraph 3, the purchasers must notify the competent combine accordingly.

VIII.

Concluding Regulations

Article 31

Rounding off Regulations

The regulations of Attachment 10 apply to the rounding off of industrial sales prices for capital equipment formed in accordance with this order.

Article 32

Special Calculation Guidelines

(1) In the drafting and central confirmation of the special calculation guidelines, the combines and state organs competent as per the legal regulations[2] must ensure that the regulations of this order are fully enforced in their sphere of responsibility. They must therefore create the necessary prerequisites by the special calculation guidelines. Consonant with the central requirements and methods established in this order, the special calculation guidelines must incorporate regulations settling the specific problems of industrial price formation in the respective industry or product groups.

(2) The provisions to be included in the special calculation guidelines must normally be defined as per the schedule of the GDR product and service nomenclature.

(3) If, due to the large variety of its production, several special calculation guidelines apply to an enterprise and give rise to divergent requirements on the enterprise (for example with respect to the method of calculation to be used), the combine of which the enterprise is part will, in agreement with the combine responsible for the respective special calculation guideline, decide the appropriate application in the respective enterprise.

(4) The special calculation guidelines to be drafted or reviewed on the basis of this order must take effect by 1 July 1984.

Article 33

Consideration for Specific Circumstances; Exceptional Provisions

(1) With the permission of the director of the Office for Prices, the industrial ministers may issue special regulations in consideration of the specific circumstances of some sectors of the national economy (such as light industry, supply management, the transportation system or the postal and telecommunication system).

(2) Instructions on the use of simplified calculation methods and industrial price formation are to be followed by authorized enterprises insofar they still plan and report to a reduced extent.

(3) If enterprises are authorized themselves to fix industrial prices on the basis of centrally confirmed price formation methods, the provisions of Attachment 11 apply.

(4) The director of the Office for Prices decides on exemptions from the regulations of this order.

Article 34

Administrative Penalty Provisions

(1) Anyone in authority who negligently

a) Permits industrial prices to be based on wrong data for the determination of costs, the assumed profit surcharge, the extra profit and profit and price surcharges,

b) Uses inadmissible price formation methods,

c) Fails to meet his obligation to draft and submit for confirmation calculation normatives, sectional prices and sectional price normatives, parameter prices, price series and special calculation guidelines,

may be penalized by reprimand or a fine ranging from M10 to M 1,000.

(2) In case of the deliberate infringement of the facts of the matter as per Paragraph 1, a fine of up to M10,000 may be imposed.

(3) Administrative penalty proceedings are the responsibility of

-- The director of the Office for Prices;

-- The deputy director of the Office for Prices;

-- The manager of the central state price control for investments at the Office for Prices;

-- Department managers at the Office for Prices;

-- Branch managers of the Office for Prices;

-- Price department or price section managers at the local councils.

(4) The Law of 12 January 1968 Against Misdemeanors - OWG - (GBl I No 3 p 101) applies to the pursuit of administrative penalty proceedings and the imposition of administrative penalties.

Article 35

Taking and Losing Effect

(1) Except for Article 34, this order takes effect on 1 January 1984. Article 34 takes effect 1 month after publication.

(2) Losing effect at the same time are:

-- Order (No 1) of 10 June 1976 on the Central State Calculation Guideline on the Formation of Industrial Prices (GBl I No 24 p 321);

-- Order No 2 of 23 August 1978 on the Central State Calculation Guideline on the Formation of Industrial Prices (GBl I No 30 p 336);

-- Price Order No 283 of 1 November 1978 on Price Formation for the Encouragement of the Production of Special Machines, Special Apparatus and Special Tools (GBl I No 41 p 447);

-- Price Order No 285 of 20 July 1978 on Price Formation for the Encouragement of the Production of Rationalization Aids (GBl I No 23 p 263).

FOOTNOTES

1. In effect at this time is Price Order No 204 of 3 November 1983 on the Nomenclature of Price Coordination Organs (Special Issue No 1144 of the GESETZBLATT).

2. Resolution of 14 February 1980 on the Management and Organization of Work in the Field of Prices - Section II - (GBl I No 8 p 58).

3. Price Order No 475 of 14 April 1983 on Upper Cost and Price Limits (GBl I No 12 p 131).

4. In effect at this time are the Decree of 14 April 1983 on the Contribution to Social Funds (GBl I No 11 p 105) and the First Implementing Regulation of 14 April 1983 to the Decree on the Contribution to Social Funds (GBl I No 11 p 106).

5. In effect at this time is the Order of 14 April 1983 on the Financing Guideline for the State Owned Economy (GBl I No 11 p 110) Attachment 1.

6. In effect at this time are the Decree of 1 July 1983 on Product-Related Levies and Subsidies (GBl I No 30 p 547), the First Implementing Regulation of 1 July 1982 (GBl I No 30 p 550) and the Second Implementing Regulation of 20 May 1983 (GBl I No 15 p 165).

7. Law of 25 March 1982 on the Contract System in the Socialist Economy - Contract Law - (GBl I No 14 p 293).

8. Rationalization aids in the meaning of these regulations are means of production as per the Definitions for Planning, Accounting and Statistics. In effect at this time are leaves III - 40-40/1 of the Third Supplement to Part 3 of the Definitions for Planning, Accounting and Statistics - 1980 Edition - (GDR Staatsverlag).

9. Industrial robot equipment in the meaning of these regulations are means of production as per the Definitions for Planning, Accounting and Statistics. In effect at this time are leaves II - 53-54/4 of the First Supplement to Part 2 of the definitions quoted in footnote 8.

10. Deemed direct costs of application are only costs, the absolute amount of which directly depends on the use of the basis of comparison and the industrial robot equipment, such as costs of basic materials, energy, repairs, ancillary materials, wages for basic production workers, and so on.

11. In effect at this time is the Decree of 25 September 1975 on the Shut-down and Shift of Product Manufacture and Services (GBl I No 45 p 729).

12. In effect at this time is the Order of 28 November 1979 on the Order of Planning of the GDR National Economy 1981-1985 - Part IV - Section 26 "Planning of Prices" (Special Issue No 1020 of the GESETZBLATT) including supplements.

Attachment 1 to the Preceding Order

Schedule of Costs Capable of Being Calculated
by Types and Groups of Costs

0. General Regulations

0.1 In the course of drafting the cost and industrial price calculation, costs may be charged once only. Charging as direct or indirect costs proceeds in accordance with their assignment to the headings of the calculation system to be used for the cost and industrial price calculation.

0.2 If expenditures are included in prime costs for the first time either at the level of the national economy or in single economic sectors, the director of the Office for Prices will decide whether they are calculable. If they are acknowledged to be calculable, this attachment will be complemented. An appropriate complement will be provided also if it is established that specific expenditures are to be excluded from prime costs or financed from funds.

0.3 If centrally established normatives (such as basic interest rate) are available in legal regulations for the costs of specific types of costs or groups of costs, higher costs arising from a possible change in these normatives are calculable only if so stipulated by the director of the Office for Prices.

0.4. If necessary to ensure regular cost charging for a period of several years, calculable costs must be subject to a time limit (for example in the case of previous work as per No 13).

0.5. The regulations on the calculability of costs also apply to the drafting of supra-enterprise normatives and enterprise norms on which price formation is based.

0.6. The use of specific calculation processes for multistage production processes, such as stage division calculation, is not excluded by the provision of No 0.1. on the one-time only charging of costs in the industrial price. The same applies mutatis mutandi to the formation of industrial prices for plant supplied by combines and enterprises as general or main contractors.[1]

1. Write-offs: Costs of the Utilization of Fixed Assets

1.1. Write-offs for the fixed assets required for manufacture of products (such as buildings, machines, plant, vehicles, and so on) are calculable in the amount of the write-off rates, fixed according to the normative life, for the gross value of the various fixed assets, taking into account the changes arising by major overhauls.

Write-offs for reserve fixed assets are calculable. Write-offs for shut-down fixed assets are not calculable.

1.2. Residual book values charged to prime costs are calculable if discarding the fixed assets to which the residual book values refer, results in such benefits that no increase in the prime costs of products and services arises by this charge.

Notwithstanding this, prime costs charged to residual book values from the premature elimination of fixed assets and scrapping are not calculable (Article 8 of the Order of 10 September 1971 on the Elimination of Fixed Assets, the Use of Special Write-offs and the Formation and Use of the Repair Fund - GBl II No 78 p 694 - in the version of Article 7 of the Order of 27 April 1982 on the Planning, Formation and Use of the Fund for Maintenance - GBl I No 19 p 395 -).

1.3. Lease payments for real property and fixed asseets as per the Order of 30 December 1982 on the Calculation and Payment of Lease Payments for Real Property and Fixed Assets (GBl I 1983 No 3p 25) are calculable. If, consonant to legal regulations, the proportional production fund tax or trade fund tax is to be included in the lease payment, these taxes are not calculable for the user. They must be met from the user's assumed profit margin.

If the conclusion of rental contracts is permissible, rental costs are calculable.

2. Materials Costs

2.1 The materials calculation proceeds at materials accounting prices or effective prices (purchase prices or cost prices). Materials accounting prices must as far as is humanly possible correspond to the actual purchase or cost prices.

The calculated prices of materials must correspond to the industrial prices established in legal regulations. Regarding the calculability of materials price changes due to planned industrial price changes, the provisions apply as issued in this context. If no such provisions are issued, the materials prices established with the planned industrial price changes are calculable.

If no final price for the basic material is available at the time the cost and industrial price calculation is drafted, enterprises must value the basic material as follows:

a) In the amount of the confirmed upper price limit, or

b) In the amount of the agreed provisional price as per Article 50 Paragraph 2 of the Contract Law of 25 March 1982 (GBl I No 14 p 293), if no upper price limit for the respective material is to be confirmed as per the legal regulations.

The enterprises are obligated to specially designate such items when calculating materials costs. If the final price is significantly lower than the upper price limits as per letters a or b, the enterprises are obligated to promptly inform the competent combine. If a change in the fixed industrial prices should be required, the combines must submit an appropriate recommendation to the industrial ministries. The competent combine must also be informed if the enterprises are authorized to fix industrial prices on their own responsibility.

In this context the special calculation guidelines may require

-- A limitation of the above obligation to materials and cooperation services significantly affecting total materials costs;

-- The extent to which the final price may diverge from the upper price limit or the provisional price without notification becoming necessary (tolerance).

It is not necessary to verify the divergence between the calculated and the final price, if the industrial prices of the products are fixed according to the methods of relative price formation; in this case the effectively arising materials costs do not directly affect the amount of the industrial prices.

It is permissible to offset the differences between calculated and final materials prices arising for the same product.

If materials, subassemblies and component parts manufactured in the enterprise and used in the items produced by the enterprises are to be valued at industrial prices rather than calculable prime costs at the time of the price calculation, this must be stipulated in the special calculation guidelines.

2.2. Starting with the normatives of materials consumption,[2] the quantitative estimates in the calculation must be based on the technically and economically established materials consumption norms drafted according to the legal regulations[3] and taking central standards and operating regulations into account. If, consonant with the legal regulations on the organization of the work with norms and normatives of materials consumption, empirical-statistical or provisional standards of materials consumption may be used, this applies to the purposes of the price calculation also.

Technological extractions or timber wastes, shrinkage and wastes are to be taken into consideration in the price calculation as elements of materials consumption norms.[4]

2.3. The costs of energy sources are calculable in the amount of the costs planned for energy consumption, consonant with legal regulations.[5] This applies to the direct and indirect charging of these costs.

2.4. Price surcharges and price markdowns for materials must be taken into account in the calculation as follows:

a) Industrial prices of materials must be calculated in the amount arising on the basis of quality classifications by the ASMW or the design quality appraisal by the Office for Industrial Design (AIF) or selective sorting.

This applies mutatis mutandi for industrial prices subject to a price markdown due to nonobservance of quality regulations as per Article 16. If, however, due to increased efforts by the enterprises, products are made from this materials with the required functional value, the price markdown does not affect the calculation.

b) Price surcharges for products of not industry-customary single-item manufacture, products diverging from standards or for the agreed delivery of lesser quantities are not calculable.

c) If discounts are granted for large-volume orders or maximum prices undercut for any other reasons, the industrial price admissible as per legal regulations may be calculated in the full amount (in other words without deducting the discount or amount of the undercut).

d) Price surcharges due to earlier delivery or performance dates are not calculable. If discounts are granted due to late delivery or performance, the industrial price permissible as per legal regulations is calculable in the fullamount.

e) Price surcharges as per Article 17, agreed when order dates are exceeded, are not calculable.

The special calculation guidelines or other legal regulations may issue instructions diverging from the provisions as per letters a-e. This applies to, for example

-- The general valuation of the material at industrial prices without price surcharges for the "Q" quality mark and the "SL" designation;

-- The acknowledgment of price surcharges for products derived from not industry-customary one-off manufacture as calculable if the purchase of such products is due to the special circumstances of the enterprise's own production;

-- The calculation of reduced quantity surcharges for foundry products by enterprises of machine construction.

2.5. If a production enterprise obtains minor quantities of materials from another production enterprise by way of socialist operating aid, the enterprises may proceed to an agreement on the customer's participation in the cost of the purchase. The proportionate purchase costs are not calculable by the customer. This does not apply to deliveries from stocks that run counter to stock keeping not justifiable in economic terms. The charge for deliveries from such stocks is governed by the Decree of 29 April 1966 on Trade in Movable Assets and Stocks (GBl II No 51 p 309) and the Stock Utilization Order.[6]

2.6. If the enterprises recycle materials to be of full value again, the calculate the prices admissible for such full-value materials. The recycling costs are not to be calculated. If recycled materials do not achieve the quality of full-value materials, but if they may be used, a markdown consonant with the reduced quality is to be deducted from the price of the full-value material and calculation proceed with the price arising therefrom. Details will be given in the specialized calculation guidelines.

This applies mutatis mutandi if an enterprise obtains materials in commission trade as per the stock utilization order and uses it to manufacture new items to be introduced in production. The provisions on the prices of exchange sets and other exchange parts as well as regenerated parts are not affected by the preceding regulations.

2.7. In their cost and price calculation, the enterprises must take into account residual substance credits at the legal prices for production wastes, waste residues, strip cuttings, scrap metal, and so on. If no legal prices are available for residual substances, enterprises must ascertain the credits for residual substances in accordance with the procedures established in the special calculation guidelines.

If residual substance credits are to be taken into account when the surcharge rates for indirect technological costs and overheads are confirmed or in any other form, this must be set out in the special calculation guidelines.

2.8 Packaging costs are calculable in an amount justifiable in economic terms.

The packaging enterprises must verify the nationally effective use of the means of packaging (Article 3 Paragraph 2 of the Decree of 13 November 1980 on the Management and Planning of Packaging - Packaging Decree - GBl I 1981 No 2 p 17).

This also includes evidence that, to safeguard rational packaging consonant with national needs,

-- The functional value/cost analysis was used,

-- The use of packaging proceeds on the basis of standards, central operating provisions and specific regulations by the competent organs,

-- Reusable packaging is used to the fullest,

-- Packaging costs represent an appropriate ratio to the total prime costs of the products.

With respect to transport packaging, the costs needed to guarantee safe carriage by the most suitable means of transport may be calculated. Sales packaging may be calculated to the extent that this is indispensable to preserve the functional qualities of the product. This applies quite particularly to sales packaging that is itself part of the functional qualities.

The type and extent of packaging must be established in connection with the decision on introducing the respective item in production. The calculation of packaging costs is to be based on:

-- The use of the material required for the purpose of packaging in accordance with quality regulations, operating provisions and other legal regulations as well as individual regulations; at the same time materials use bans must be observed;

-- Hourly cost normatives (including indirect technological costs and overheads) for unpacking.

Packaging costs are always part of the prime costs of products. Should another method of charging need to be used (for example separate charging in supplementary charge procedure or charging for wear and tear), this arises from special calculation guidelines or other legal regulations.

2.9. The costs of cheap and rapidly deteriorating work edquipment are calculable in accordance with the instructions issued in accounting and statistics.

2.10. Materials costs including costs of packaging are not calculable if they arise by reason of defects in materials and packaging management, especially due to

-- The use of not dimension-appropriate materials,

-- The use of materials of better quality than needed for the particular purpose,

-- The supply of faulty materials by the supplier of the previous stage (such as reworking costs),

-- The unpunctual delivery of materials,

-- Poor buying.

2.11. The preceding regulations apply analogously to the costs of ancillary materials. If, according to the legal regulations, materials consumption norms must be drafted for ancillary materials, too, the consumption of ancillary materials may be acknowledged only in the amount determined by these norms.

2.12. Provided nothing else is stipulated, the enterprises calculate outside wage labor and cooperation as part of the direct technological costs.

2.13. Special regulations with regard to the calculation of material costs must continue to be used within the scope of the order.

2.14. To simplify the calculation and settlement, minor materials may be settled with normatives. Such normatives as well as nomenclatures for the minor materials are part of the special calculation guidline.

3. Wage Costs

3.1. Enterprises calculate wage costs on the basis of the basic wages or standard wages in effect, using time rates corresponding the most economical technology in the given circumstances. In detail the following applies:

a) The calculation of wage costs is normally to be based on indices of work performance, such as technically established labor norms (supra-enterprise normatives and enterprises norms) and other indices of work performance as well as manning norms (for automated and apparatus controlled processes). If no technically established labor norms are available, the calculation is to be based on the time values established in enterprise work standards.

The basic or standard wage is to be calculated on the basis of schedules established in the scope of collective agreements and the classification data.

When standard wage rates or other regulations dealing with wages are changed, the industrial ministers, in coordination with the director of the Office for Prices, will decide the calculability of the wage costs arising.

Bonuses for difficult work are calculable consonant with enterprise arrangements but only up to the top limit stipulated in the skeleton catalogues for difficult work.

b) Enterprises calculate wage premiums and other performance oriented wage components according to the wage types agreed between the enterprise manager and the competent enterprise trade union leadership on the basis of legal regulations. The stipulated upper limits may not be exceeded.

c) Also calculable are

-- Extra payments for planned Sunday, holiday and night work,

-- Extra payments for overtime worked by employees engaged in transportation, transshipment and warehousing processes,

-- Shift premiums,

-- Extra premiums to brigade leaders,

-- Wage costs arising in connection with socialist rationalization, in particular for training measures,

-- Wages for shutdown times due to technological factors, unless such periods of time were taken into account when establishing norm times.

d) Also calculable is the wage equalization in the amount of average earnings payable to working people paid by the hour if the weekly hours of work are cut while the standard hourly wage is retained, and so is the respective equalization for working people who are paid by the month or are salaried.[8] If hourly wage labor is carried out in the meaning of the price regulations and the wage costs arising are charged as direct technological costs, the former standard hourly wages or basic wages are to be used for the calculation. At reconfirmation of the surcharge rates for indirect technological costs and overheads, equalization in the amount of average earnings is to be acknowledged as calculable.

e) To be calculated separately are

-- Extra payments for unplanned Sunday, holiday and night work and overtime, if the customer requests performance on these terms and agrees the extra charge;

-- Performance wage equalization if the performance agreed with a customer and requiring outstanding skills, can be carried out only on the basis of time wages and, in accordance with the provisions of the labor code, the labor force employed to carry out the work must be paid equalization up to their average earnings (performance wage equalization). This is conditional on the customer's consent to the separate charge for the performance wage equalization. Such agreements on passing on charges are permissible only if orders of the kind described cannot be carried out by regular procedures.

3.2. If no normatives have yet been set for them, wages arising in various enterprises departments as ancillary wages (for example wages for technical personnel, sconomists, administrative personnel) are calculable only in an amount justifiable in economic terms.

3.3. Among the calculable wage costs are the wages payable according to legal regulations

-- For exemption from work,

-- For vacations (vacation pay),

-- For the day of housework.

Also among the calculable costs are

-- Bridging money as per Article 121 of the GDR Labor Code of 16 June 1977 (GBl I No 18 p 185),

-- Long-service premiums,

-- Travel costs, allowances, expenses, fares, compensation for tools, separation pay and other costs of the same kind,

-- Payments in kind (employee discounts, for example) having the nature of earned income,

-- Other wages, remunerations and premiums if payable as prime costs as per legal regulations (in other words not paid from funds), and if their calculability is not excluded as per Attachment 2.

3.4. Extra wages according to the Extra Wage Decree of 28 May 1958 (GBl I No 34 p 417) are calculable unless they were already included in the wage rates of standard wage contracts which took effect since 1959.

3.5. Christmas bonuses are calculable in the legally fixed amount.

3.6. To be stimulated by the establishment of normatives for multimachine operation are manpower savings and the use of highly-productive machinery and plant. The instructions required thereto must be issued in the special calculation guidelines.

3.7. If, in accordance with legal regulations, the costs cited in this section are to be separately charged to the customers, these legal regulations are not affected by the preceding instructions.

4. Calculation of Apprentice Remunerations, Study Grants and Wages for Training and Retraining Work and Trainee Remuneration

4.1. Enterprises must normally take into account the productive work of apprentices in their cost and industrial price calculations so as to calculate wages costs for skilled workers admitted for inclusion in the calculation (time rates as well as wage rates as for the employment of skilled workers.

4.2. If the productive work can be carried out at time wages only, enterprises may include the actual apprentice remuneration and manufacturing times in the calculation. The industrial prices arising must maintain a ratio justifiable in economic terms to the industrial prices for similar or comparable products and services.

4.3. Apprentice remunerations for nonproductive work must be charged as part of overheads.

4.4. Nos. 4.1.-4.3. apply mutatis mutandi to wages for training and retraining work (including the wages for people to be rehabilitated); they also apply to work carried out in the course of polytechnical instruction, in scientific-practical work as work by students during their practical train, or for any other reason.

5. Contribution to Social Funds

The contribution to social funds is calculable as per the provisions of Article 8 of the Order.

6. Cultural and Social Fund/Premium Fund

6.1. Allocations to the cultural and social fund are calculable in the amount of the state plan target.

6.2. Contributions to the premium fund are not calculable.

7. Costs of Enterprise Welfare, Costs of Practical Vocational Training and Polytechnical Instruction as well as Costs of Adult Education

7.1. The costs of enterprise welfare as per the legal regulations[9] in the cost and price calculation are met by the calculation of the allocations to the cultural and social fund.

Exempted from this provision are costs such as write-offs, energy and wages, only part of which are chargeable to welfare purposes, and which the general director of the combine or director of the enterprise may disregard when charging the cultural and social fund in the interest of economic operations. These costs are calculable.

7.2. The costs of practical vocational training as per the legal regulations[10] including the costs of vocational guidance offices[11] as well as the costs of polytechnical instruction and the costs of adult education are calculable if they must be financed at the expense of prime costs.

7.3. The costs of the practical professional training of students at colleges and technical schools during their practical and specialization stage in socialist industry and other sectors of the national economy are calculable.

8. Social Insurance

8.1. The enterprise portion of social insurance and the accident contribution as well as contributions to pension insurance for the intelligentsia are calculable in the amount arising from legal regulations.

Also calculable are the costs of additional pensions as per the Order of 9 March 1954 on the Introduction of Additional Social Security for Blue and White Collar Workers in the Most Important State Enterprises (GBl I No 30 p 301).

8.2. Enterprise contributions to the voluntary additional social security insurance as per the Decree of 17 November 1977 on the Voluntary Additional Pension Insurance of Social Security Insurance - FZR Decree - (GBl I No 35 p 395) in the version of the Second Decree of 28 May 1979 (GBl I No 16 p 123) are calculable.

8.3. Costs arising because the necessary prerequisites for the accomplishment of tasks in the field of social insurance must be created in the enterprise and the enterprise labor union leadership organizations, the councils and authorized signatories for social insurance assisted by the enterprise in the accomplishment of their tasks, are calculable (Article 277 of the GDR Labor Code of 16 June 1977 - GBl I No 18 p 185 - in conjunction with Article 98 of the Decree of 17 November on the Compulsory Social Insurance if Workers and Employees - SVO - GBl I No 35 p 373).

9. Insurance Costs (Excluding Social Insurance)

The costs of statutory insurance are calculable. The costs of voluntary insurance are calculable only if this is stipulated in legal regulations.

10. The Consumption of Productive Performances

10.1. The costs of the consumption of productive performances (cost group 32) are calculable in an amount justifiable in economic terms, taking into account the provisions of this Attachmand and of Attachment 2.

To be observed in particular are the provisions on

-- Outside wage labor (No 2.12.),
-- Costs of maintenance (No 12),
-- Prior stage services (No 13),
-- Patents and licenses acquired (No 16),
-- Reworking and warranty services (No 17 in conjunction with Article 9 of the Order),
-- Outside performances for demolition and scrapping (not calculable as per Attachment 2).

10.2. Freight costs for the materials, component supplies, and so on, purchased by the enterprises as well as other costs of acquisition are calculable in accordance with the detailed provisions of No 2 (Materials).

Freight costs for the delivery of the products manufactured by the enterprises and other costs directly connected with the delivery are calculable if, as per the freight status fixed for their products,the enterprises are obligated to bear such costs.

These provisions apply mutatis mutandi to transshipment and warehousing services.

Transportation, transshipment and warehousing costs may be charged as part of the overheads.

10.3. Advertising costs are calculable up to the amount of the limit stipulated by the superordinated manager. The same applies mutatis mutandi for the costs of representation.

10.4. Also calculable are the costs of

-- Data transmission,
-- Mechanical accounting,
-- "Other miscellaneous productive performances" in the meaning of the regulations on accounting and statistics, required to pursue enterprise operations.

11. The Consumption of Nonproductive Performances

The costs of the consumption of nonproductive performances (account group 37--such as building and window cleaning, garbage removal, security by outsiders) are calculable takling into account the provisions of this Attachment and Attachment 2 and to an amount justifiable in economic terms. To be observed in particular are the provisions on

-- Legal and counseling costs (No 20),
-- The costs of the enterprise's own counseling and representational operations (No 21),
-- Fees and contributions according to the provisions of No 23.

12. Costs of Maintenance

12.1. The allocations to the fund for maintenance to be settled as per the legal regulations[12] to the debit of prime costs, are calculable up to the limit foxed for planning and forming this fund. This applies regardless whether the fund is used to finance the costs of preparing and carrying out major overhauls or ongoing maintenance work.

12.2. Enterprises which, as per legal regulations, do not set up a fund for maintenance, are entitled to calculate maintenance costs to the extent required to ensure an uninterrupted course of production. They are obligated to a time limit on maintenance costs if exceptionally great maintenance costs arise in the year on the basis of which the additional rates for indirect technological costs and overheads are confirmed.

If in the year on the basis of which the additional rates are confirmed, maintenance costs are exceptionally low, the enterprises may subsequently request that substantially greater maintenance costs likely to occur in other years are taken into account at the confirmation of these additional rates, based on an anticipatory calculation.

13. Previous Work

13.1. The costs of previous work (tools, apparatus, models, instructions, and so on, are calculable. They must be so limited in time as to be proportionately incorporated in the calculations of the products manufactured in the probable period of use. The basis must be strict criteria for the rational use of the tools, and so on. If tools, and so on, are required for the manufacture of products, which allow for a longer period of use than required by the volume of products likely to be manufactured, this must be made known in the cost and industrial price calculation.

13.2. The provisions of No 14 apply to previous work financed from the fund science and technology.

13.3. The special calculation guidelines may stipulate that the costs of previous work are to be assigned to the products of a product group at equal percentage rates.

In this context the choice of the basis for the additional rate to be formed must guarantee that the assignment of these costs largely proceeds on the causal principle.

14. Costs of Research and Development

14.1. To meet the costs of research and development, enterprises and combines must calculate the calculation normatives for research and development, confirmed for the purposes of price formation. This applies regardless whether the allocations to be financed at the expense of prime costs proceed according to the legal regulations on the use of economic accounting in research and development to the fund science and technology of the combine or the combine enterprises.

14.2. If enterprises still planning and reporting to a reduced extent do not set up a fund science and technology as per the decisions of superordinated managers and leval regulations, the costs of science and technology directly charged to prime costs are calculable as per No 14.1. up to thje amount of the confirmed calculation normatives. If, however, these enterprises are then obligated to use the calculation normatives, the money they spend on research and development is not calculable.

14.3. The calculable normatives for research and development are fixed by product groups (product complexes). In this case the entire planned output of a specific period of time must be incorporated in the basis of the normative expressed as a percentage.

Not normally to be incorporated in the basis are the following:

-- The enterprise's own wage labor, repair work, assembly services,

-- The cost of outside packaging,

-- The products and services based on research results and design data made available free of charge by the customer.

For special and one-off items it may be stipulated exceptionally that the research and developments arising in this context may be directly charged. In this case these special and one-off items must also be excluded from the basis of the normatives for research and development.

14.4. Not excluded by the provisions of No 14.3. are instructions corresponding to the specific circumstances of sectors and industries, such as

-- Fixing the normatives for research and development in an absolute amount per unit of quantity of the products,

-- The inclusion of assembly services in the basis of the normatives for research and development (if research and development topics are assigned for such services),

-- The use of the method of indirect assignment of research and development for single part production,

-- The exclusion of replacement parts from the basis of research and development costs.

The necessary instructions must be issued in the special calculation guidelines.

15. Starting-up Costs

15.1. Industrial prices must be based on the costs of series production. The manufacturer must separately compile and impose a time limit on start-up costs in the planned amount as previous work costs with respect to the additional costs arising from the start of production up to

achievement of the level of series production, such as costs arising before a new enterprise or enterprise section is taken into service and required for an orderly start of operations (Article 7 of the Order of 0 November 1971 on Regulations for the Financing of Investments and the Treatment of Cost Overruns and Start-up Costs - GBl II No 78 p 690 -). A special calculation normative is to be drafted and confirmed on the basis of costs so ascertained; this must be used for the calculation of costs and industrial prices and separately recorded.

15.2. The calculation normative may be fixed

-- Relating to product groups,

-- Relating to products (especially if the new items to be introduced in production show major differences in start-up costs; in such cases the charge may be direct.

The respective procedure to be used is to be fixed in the special calculation guidelines.

15.3. If, in accordance with legal regulations formerly in effect, start-up costs were included in the normatives for research and development, these normatives continue in effect until their reconfirmation--to proceed regardless of start-up costs. In these circumstances start-up costs may not be separately calculated.

16. Costs of the Use of Innovations, Inventions and Proprietary Rights

16.1. The remunerations for innovations and inventions, remunerations for services in the transfer of innovations and inventions as well as out of pocket expenses to be repaid innovators as per the Innovator Decree and its implementing regulations[13] as well as other legal regulations in this field[14] are calculable only to the extent that they are a charge on prime costs (in other words not paid from specific funds).

16.2. The remunerations, and so on, calculable as per No 16.1. are to be limited by way of previous work if costs would be unduly high for the year of payment.

16.3 Enterprises must calculate the cost of licenses (license fees) for exclusionary patents up to the amount recommended by the GDR Office for Inventions and Patents. If license fees are graded by the volume produced or other criteria, the enterprises normally calculate the rate to be used for the probable volume of production.

16.4. Remunerations for industrial samples as per legal regulations[15] are calculable if they are charged to prime costs. If necessary a time limit must be imposed on these costs as per No 16.2.

16.5. The costs of applying for and maintaining proprietary rights and of other patent right measures with the exception of exclusionary patents are calculable unless no fund science and technology is set up.

16.6. If, at the time a calculation is drafted, enterprises have applied for issue of a patent, they may include an assumed amount in the calculation in settlement of the inventor performance--complete with the appropriate verification--, provided the costs arising therefrom are not to be financed from earmarked funds. If the patent is not issued, the enterprises are obligated so not inform the competent combine.

16.7. Not calculable are the costs of the acquisition of scientific-technological results including the purchase of developments and licenses. Such costs must be met from the investment fund or the fund science and technology, in accordance with the legal regulations in effect.

The same applies for miscellaneous costs to be financed as per legal regulations from the fund science and technology (such as the costs of obtaining information and data for the realization of scientific--technological tasks).

The preceding also applies to costs arising in connection with the intended export or import of scientifictechnological results and which need to be financed as planned from the fund science and technology (Third Implementing Regulation of 7 January 1981 to the Decree on the Management and Operation of Foreign Trade - Export and Import of Scientific-Technological Results - GBl I No 7 p 85).

These costs are calculable only if, as per the legal regulations, they are to be charged as planned to prime costs.

16.8. Lease payments as per the legal regulations on the use of economic accounting in research and development are calculable only if they are charged to costs.

16.9. The following principles apply to the charging of the costs calculable as per this number:

-- Calculable costs for innovations, inventions, samples and measures affecting patent rights, affecting the performance of the entire enterprise or individual departments, must be included in the costs to be accounted for indirectly and taken into account when fixing the additional rates in effect hereto (for instance innovations for the improvement of production technology).

-- Calculable costs for innovations, inventions, samples and measures affecting patent rights, affecting a specific product or specific product group, are to be charged to those products (license costs, for example).

17. The costs of Rejects, Reworking and Warranty Services

If costs are calculable at all for rejects, reworking and warranty services, this arises from Article 9 of the Order.

18. The Costs of Combine Management and Administration

18.1. The apportioned combine share fixed to finance combine management administration as per the legal regulations[16] is calculable.

The apportioned combine share set the enterprises as an absolute amount with the plan must normally be converted into a calculation normative to be used for the price calculation. This needs to be done by the issue of appropriate provisions in the special calculation guidelines; however, the inclusion of the apportioned combine share in other calculation normatives for indirect costs is permissible.

18.2. If the costs of combine management and administration must be financed from the planned costs of the parent enterprise, these costs are also calculable. However, if required for the observance of the principle of causal costs in price formation, a calculation normative must be established in these circumstances also and used by all combine enterprises for their price calculations. The settlement of the earnings realized by the combine enterprises due to this calculation normative must be arranged within the combine.

18.3. The provision as per No 18.1. applies analogously to the apportioned share to be paid within the Union of GDR Consumer Cooperatives by the consumer cooperative industrial and service enterprises.

19. The Costs of Product Group Work

The costs of product group work as per the Order of 22 July 1975 on Financing Product Group and Supply Group Work (GBl I No 33 p 616) are calculable up to the amount of the expense limit stipulated.

20. Legal and Counseling Costs

The costs of counseling for enterprises in the scientific-technological, economic and legal area (by, for example, the scientific-technological centers of the combines) are calculable if such counseling is required in the interest of enterprise operations and the enterprises do not have available their own technical staff with the qualifications needed.

The costs of the work of the Accounting and Economic Advisory VEB are calculable.

The costs of advice in connection with price, tax, business or other penalty proceedings are not calculable.

21. The Costs of the Enterprise's Own Advisory Activities; Costs of Representation

21.1. If enterprises advise their customers in connection with the sale of their products, in particular with regard to the potential use, the operation, maintenance and servicing of machines, plant, devices, and so on, or with respect to the potential application of the products delivered, or if they carry on training courses, the money spent for such purposes is calculable.

If legal regulations govern the preceding services, they must be applied. If that is not the case, these costs are to be included in ther industrial prices as part of overheads

21.2. If representatives are employed in special circumstances, the costs arising therefrom (costs of representatives) if

-- The socialist wholesale trade does not take on the sales of a product,

-- Following the product definition, the submission of the offer by representatives (for example presentation of sample collections) or technical advice to the customer is required.

Costs of representatives may not be calculated if the enterprises directly supply the retail trade and, in accordance with legal regulations, the wholesale trade margin may be split with the retail trade.

Enterprises must ensure that the calculated costs of representatives maintain an appropriate ratio to total prime costs. The costs of representatives are to be charged to an amount justifiable in economic terms as direct or indirect costs.

22. The Costs of Water, Sewage and Water Use

22.1. The costs of potable and nonpotable water as well as the drainage of waste water into sewage plants, surface waters and ground water are calculable. Also calculable are water use payments for taking surface and ground water, with the exception of penalties in the form of a surcharge on the water use payment for unapproved water extraction, for exceeding the approved water extraction volume or loss volume as well as waste water money as per the legal regulations.[17]

22.2. The availability remuneration as per Article 17 of the Order of 26 January 1978 on the General Terms for Connecting Sites to Public Water Supply Facilities and for the Delivery and Acceptance of Potable and Nonpotable Water - Water Supply Terms - (GBl I No 6 p 89) is calculable.

23. Taxes, Fees, Contributions

The taxes to be paid by the enterprises are calculable, taking into account the time limit and enterprise causality.

Fees (for instance on the basis of the Decree on State Administrative Fees) and contribution (such as membership contributions to the trade mark union) are calculable.

Fees charged in connection with administrative penalties or other penalties and with the issue of multiple earnings tax assessments, are not calculable.

24. Interest Costs

24.1. Interest costs of planned loans as per Articles 6, 7, 9 and 10 of the Credit Decree[18] are calculable in the amount of the basic interest rate of 5 percent per annum (Article 3 Paragraph 1 of the Credit Decree). This even applies if interest discounts are granted consonant with legal regulations so as to stimulate better performance. However, on the recommendation of the GDR State Bank, the director of the Office for Prices may decide that the interest for some planned procedures of loan grants are to be calculated only in the amount of the reduced rate.[19]

24.2. The establishment of the total amount of calculable interest payments must be based on the volume of plan loans coordinated with and confirmed by the banmk for the following year (Article 2 Paragraph 6 of the Credit Decree) unless cost normatives for interest payments were set.

25. The Costs of the Use of the Functional Value/Cost Analysis

The money spent on the use of functional value/cost analyses (such as wage costs) are calculable unless they should be financed from the fund science and technology.

26. Costs of Risks

The costs of risks are calculable if so provided in legal regulations.

27. Other Calculable Costs

Also calculable are

-- Costs arising from studies for the drafting of conceptions for comprehensive basic asset reproduction and the preparation of target assignments and prior investment decisions;

-- Payments made in accordance with legal regulations for services used by the enterprise;

-- Environmental control costs.

28. Rates of Repayment for Loans Used to Purchase Capital Equipment

If the use of capital equipment financed from loans result in lower prime costs per product unit, the competent combine may, upon application, authorize the enterprises to calculate the repayment rates up to the amount of the demonstrate reduction in prime costs for new items

to be introduced in production, if their industrial prices are formed as calculation prices rather than relative prices.

29. Geological Studies

The average mineral specific payment normatives to refinance geological exploration work[20] and confirmed by the director of the Office for Prices are calculable.

FOOTNOTES

1. In effect at this time is Order (No 1) of 1 March 1971 on the Formation of Industrial Prices for Investment Performances and the Export of Plant by General and Main Contractors (GBl II No 32 p 259) and Order No 3 of 10 May 1979 (GBl I No 19 p 165).

2. Order of 23 December 1981 on the use of Technically and Economically Established Normatives for the Planning of Materials Consumption (Special Issue No 1077 of the GESETZBLATT).

3. Decree of 1 July 1982 on the Work with Norms and Normatives of Materials Consumption and Stock Keeping (GBl I No 28 p 515) in conjunction with its First Implementing Regulation of 1 July 1982 - Materials Consumption Norms- (GBl I No 28 p 520).

4. See Article 2 of the afore cited First Implementing Regulation.

5. Order No 3 of 19 April 1982 on the Supplementation of the Order of Planning of the GDR National Economy 1981-1985 - Part M - Planning of Materials Management, Materials, Equipment and Consumer Goods Balancing - Section 22 No 8.4. (Special Issue No 1020/1m of the GESETZBLATT).

6. In effect at this time is the Order of 14 April 1983 on the Periodic Ascertainment of Unneeded Consumer-side Stocks by the Balancing Organs and the Responsibility and Material Stimulation of the Manufacturers for the Efficient Use of the Excess Stocks of their Production Assortment - Stock Utilization Order - (GBl I No 13 p 146).

7. Article 2 Paragraph 1 of the First Implementing Regulation of 1 July 1982 to the Decree on the Work with Norms and Normatives of Materials Consumption and Stock Keeping - Materials Consumption Norms - (GBl I No 28 p 520).

8. Decree of 29 July 1976 on the Further Gradual Introduction of the 40-hour Work Week (GBl I No 29 p 385).

9. In effect at this time is the Order of 28 March 1972 on Financing Enterprise Facilities and Measures for the Welfare of the Working People - Financing Enterprise Welfare - (GBl II No 20 p 225).

10. In effect at this time is the Order of 17 October 1969 on Financing Vocational Training (GBl II No 88 p 541).

11. In effect at this time is the Order of 7 April 1975 on Vocational Guidance Centers and Vocational Guidance Offices (GBl I No 18 p 334).

12. In effect at this time is the Order of 12 April 1982 on the Planning, Formation and Use of the Maintenance Fund (GBl I No 19 p 395).

13. In effect at this time are the Decree of 22 December 1971 on the Encouragement of the Work of Innovators and Rationalizers in the Innovator Movement - Innovator Decree - (GBl II 1972 No 1 p 1) as well as the First Implementing Regulation of 22 December 1971 to the Innovator Decree - Remuneration for Innovations and Inventions -(GBl II 1972 No 1 p 11).

14. Third Implementing Regulation of 2 March 1978 to the Proprietary Rights Decree - Special Acknowledgment of the Preparation and Transfer of Inventions - (GBl I No 7 p 102).

15. In effect at this time are the Decree of 17 January 1974 on Legal Protection for Samples and Models of Industrial Design - Decree on Industrial Samples - (GBl I No 15 p 140) and the First Implementing Regulation of 16 June 1983 to the Decree on Industrial Samples - Remuneration for Industrial Samples - (GBl I No 19 p 196).

16. Article 15 of the Order of 14 April 1983 on the Financing Directive for the State Owned Economy (GBl I No 11 p 110).

17. In effect at this time is the Second Implementing Decree of 2 July 1982 to the Water Law - Sewage Money and Water Use Remuneration - (GBl I No 26 p 485.

18. Decree of 28 January 1982 on Grants of Loans and Banking Controls of the Socialist Economy - Credit Decree - (GBl I No 6 p 126).

19. At this time interest payments are to be calculated in the amount of the discounted rate for planned loans to finance stocks of selected investment projects at general or main contractors, of economic reserves, centrally mandatory minimum stocks of important products and specially fixed replacement part stocks.

20. See Article 9 Paragraph 3 of the Decree of 13 November 1980 on the Management, Planning, Financing and Refinancing of Geological Prospecting Work (GBl I No 35 p 265) in conjunction with the Order of 16 February 1981 on the Determination of Payment Normatives for Refinancing Expenditure on Geological Search and Ante-exploration Work (GBl I No 8 p 94).

Attachment 2 to the Preceding Order

Schedule of Costs not Capable of Being Calculated, by Types and Groups of Costs

1.

Enterprises are not entitled to calculate the costs of the following types and groups of costs:

-- Extra pay for unplanned Sunday, holiday and night work,[1]

-- Extra pay for overtime (except for working people employed on transportation, transshipments and warehousing processes),[1]

-- Wage group equalization,

-- Performance wage equalization,[1]

-- Extra pay in addition to the wage for handling difficultmaterials (if faulty or unsuitable materials are used),

-- Extra pay for inappropriate means of production,

-- Wages for shutdown and idle times (with the exception of shutdown times caused by technological factors),

-- Wages for periods of shutdown,

-- Surcharges for barred zones,

-- Costs of idled capital equipment,

-- Costs of rented, leased or hired out capital equipment,

-- The land use fee,

-- Residual book values to which the conditions as per Attachment 1 No 1.2. do not apply,

-- Costs of rejects, reworking and warranty services, with the exception of the costs calculable as per Article 9 of the Order,

-- Costs of losses, demolition, scrapping and costs of transfers and shifts if, as per the legal regulations, they are part of investment expenditures but are not activated but charged to costs,

-- Interest on late payments, interest on defaulted payments, extra charges for defaulted payments, late charges,

-- Contract penalties and other penalties including business penalties (see Articles 109 and 110 of the Law of 25 March 1982 on the Contract System in the Socialist Economy - Contract Law - GBl I No 14 p 293),

-- Court costs at contract courts and other courts,

-- Compensations and return of expenses,

-- Demurrage and surcharges on standard ship demurrage rates,

-- Fines, administrative penalties, and compulsory levies (for example compulsory levies as per the Decree of 30 October 1980 on Energy Management in the German Democratic Republic - Energy Decree - GBl I No 33 p 321),

-- Claims losses,

-- Contributions to voluntary insurances (with the exception of enterprise contributions to the voluntary additional pension insurance),

-- Inventory shortages,

-- Costs arising from the devaluation of stocks of raw materials, other materials, unfinished and finished products and trade goods as per the Order of 14 September 1977 on the Improvement of Order and Discipline to Prevent Material and Financial Losses (GBl I No 29 p 335),

-- Costs arising from the revaluation of stocks on the basis of planned price changes and from the revaluation of stocks from the plan costs of the preceding year to the plan costs of the current year,

-- Materials price standard divergences (balance between materials price standards and purchasing or delivery prices),

-- Commissions as per the Stock Utilization Order,[2]

-- Dust and waste gas moneys,[3]

-- Waste water money, penalties[4] and fees for nonobservance of water management regulations,[5]

-- The costs of the construction management operations of the construction customer if financing from investment moneys is not permissible as per the Order of 10 November 1971 on Regulations for the Financing of Investments and the Treatment of Cost Overruns and Start-up Costs (GBl II No 78 p 690),

-- The costs of economic difficulties as per the Order of 10 November 1971 on Regulations for the Financing of Investments and the Treatment of Cost Overruns and Start-up Costs,

-- Additional costs caused by defective investment activity,

-- Costs arising from the illegal use of financial means for investments,

-- Costs of discontinued investments,

-- Costs of defective scientific-technological work,

-- Costs of inadequate capacity utilization,

-- Other costs arising from plan infringements,

-- Costs of the application for and maintenance of exclusionary patents,

-- Costs not relating to enterprise performance,

-- Costs incurred by enterprises of the transportation system for the regional material-technological structure.

If enterprises show a profit when offsetting the preceding costs with the corresponding earnings, they are not obligated to credit this to calculable costs for the purpose of price formation.

2. Costs to be financed from earmarked funds according to legal regulations, are not calculable. The allocations to such funds are calculable, provided this is established in this Order.

3. If the enterprises are entitled to a remuneration for the sale of trade goods (such as part of the wholesale margin), the costs arising in connection with the sale of the trade goods (for example for purchase, warehousing and sale) are not calculable for the formation of industrial prices of the items produced by them.

FOOTNOTES

1. See Attachment 1 No 3.1.

2. In effect at this time is the Order of 14 April 1983 on the Periodic Ascertainment of Unneeded Consumer-side Stocks by the Balancing Organs and the Responsibility and Material Stimulation of the Manufacturers for the Efficient Use of the Excess Stocks of their Production Assortment - Stock Utilization Order - (GBl I No 13 p 146).

3. In effect at this time is the Fifth Implementing Decree of 17 January 1973 to the Environmental Control Law - Keeping the Air Free of Pollution - (GBl I No 18 p 157).

4. In effect at this time is the Second Implementing Decree of 2 July 1982 to the Water Law - Waste Water Money and Water Utilization Remuneration - (GBl I No 26 p 485).

5. The Order of 26 January 1978 on the General Terms for the Connection of Sites to Public Water Supply Facilities and for the Delivery and Receipt of Potable and Nonpotable Water - Water Supply Terms - (GBl I No 6 p 89), the Order of 20 July 1978 on the General Terms for the Connection of Sites to and the Induction of Waste Water in Public Sewage Facilities - Waste Water Induction Terms - (GBl I No 29 p 324 and the legal regulation already cited in Footnote 4.

Attachment 3 to the Preceding Order

Determination of the Productive Funds and Principles for the Assignment of Profit with Respect to the Formation of Industrial Prices

I.

The Determination of the Productive Funds

1. Productive funds in the meaning of this order are the stocks of fixed and circulating assets fixed in the plan, and which are needed for the rational operation of the production processes at an advanced standard of fund and materials management and labor productivity.

2. Among the productive funds are:

   a) The fixed assets to be disclosed as per the provisions on accounting and statistics, and rented, leased or used fixed assets at gross value, with the exception of

      -- Basic assets rented or leased out or released for use,

      -- Closed down fixed assets,

      -- Fixed assets for health care, social welfare and physical culture and fixed assets for housing.

      Only fixed assets for practical vocational training count among the productive funds with respect to fixed assets for science, popular education and culture (including vocational training and adult education);

   b) The stocks of material circulating assets to be planned as per the legal regulations on the basis of the norms and normatives of stock keeping.

3. Disregarding the funds to be excluded as per No 2, the following are not part of the productive funds:

   -- Stocks of earmarked materials to be financed from special means,

   -- Incomplete investment projects,

   -- The land use fee in effect,

   -- Stocks of incomplete scientific-technological work,

   -- In the case of enterprises of the transportation system, the fixed and circulating assets of the regional material-technological structure.

-- Deposits for financing export offices as per Article 21 of the Decree of 2 June 1971 on the Establishment and Operation of Export Offices (GBl II No 52 p 433).

4. The determination of the productive funds as per Nos 1-3 proceeds on the basis of average annual stocks. The average stock of fixed assets is to be calculated from stocks held at the beginning and end of the year respectively. Divergent provisions may be prescribed in the special calculation guidelines (such as calculation from the stock held at the beginning of the year and the final stocks of months or quarters).

The average stock of circulating assets is to be determined on the basis of enterprise circulating asset planning.

II.

Principles for the Assignment of Profit with Respect to the Formation of Industrial Prices

1. The drafting of assumed profit surcharges for the assignment of profit with respect to the formation of industrial prices is to be based on

-- The productive funds as per Section I;

-- The normative profit rate set for the respective industry (rate of fund profitability);

-- The output volume stipulated in the plan or, in the case of the indirect assignment of the profit, the processing costs required to manufacture the planned output volume or costs based on hourly cost normatives relating to machinery and plant.

2. The method of profit assignment (direct or indirect assignment) is to be prescribed in connection with the confirmation of assumed profit surcharges in the special calculation guidelines issued by the organs[2] responsible for doing so. The basis must be the principles as per Nos 3 and 4.

3. Indirect Assignment

3.1. The method of the indirect assignment of profit is to be used in particular when

-- The production assortment is so extensive that the exact assignment of funds to individual products is either not feasible or too expensive,

-- Products are changed rapidly.

If profit is assigned indirectly, it is necessary to recommend a basis for the assumed profit surcharge, which will safeguard the largely proportionate assignment of profit relative to the use of the productive funds.

To be used as bases are, in particular

-- Machinery and plant related hourly cost normatives,

-- Processing costs.

Indirect assignment is used specially in the form of the indirect assignment by product groups. This must start from the need that the assumed profit surcharge is to reflect the fund expenditure with sufficient accuracy while, at the same time, any undue differentiation of the assumed profit surcharges must be avoided.

3.2. Profit assignment may also be carried out in the manner that the assumed profit surcharge is included in the machinery or plant related hourly cost normatives (inclusion of the assumed profit apportionable to the gross value of the machinery or plant in the normative). A precondition for the use of this method is the possibility of the other fixed assets being assignable to machinery or plant by way of apportionment formulas, and that the time-related assignment of the fixed assets effected thereby largely corresponds to their use by the products. If circulating assets cannot be assigned to machinery and plant by way of apportionment formulas, the assumed profit apportionable to them must be included in the industrial prices by way of other bases.

4. Direct Assignment

4.1. The method of direct profit assignment is to be used in particular, if

-- The production assortment is relatively small;

-- The products pass through the most important departments of the enterprise,

-- The productive funds used by ancillary and auxiliary departments may be assigned the cost units by way of sufficiently accurate formulas,

-- Process cost accounting is used as the method of calculation.

If prices are used to charge auxiliary performances, which are applied to third parties also, the productive funds used to produce such auxiliary performances are exclusively to be assigned to these auxiliary performances. They are not to be included in the determination of the fund profitability of the main products (for instance electricity supplied by the combine's own power plants).

4.2. The combines see to it that, in the interest of the exact accounting for the productive funds used per cost unit, these funds are accurately determined in the main, ancillary and auxiliary departments, and the cost headings broken down in accordance with the differentiated technological procedure.

The combines also establish assignment formulas if the fixed and circulating assets cannot be directly assigned to products (for example the assignment of machinery according to machine running time; assignment by way of suitable apportionment formulas of the fixed assets used by all the products manufactured, such as administrative buildings or boiler houses).

FOOTNOTES

1. Decree of 1 July 1982 on the Work with Norms and Normatives of Materials Consumption and Stock Keeping (GBl I No 28 p 515), in conjunction with its Third Implementing Regulation of 1 July 1982 - Stock Norms and Normatives of Stock Keeping - (GBl I No 28 p 524).

2. Section II No 5 of the Resolution of 14 February 1980 on the Management and Organization of Work in the Field of Prices (GBl I No 8 p 58).

Attachment 4 to the Preceding Order

Basic Structure of the Cost and Industrial Price Calculation

The calculation method to be used for the construction of the cost and industrial price calculation is to be preset for the enterprises in the special calculation guidelines or other legal regulations. The most complete possible compliance with the provisions of accounting and statistics (including sectional guidelines) must be safeguarded. The regulations issued for accounting and statistics normally apply with regard to the assignment of costs to groups of costs.

The following is the basic structure:

1		Direct technological costs
2	+	Indirect technological costs
3	=	Technological costs
4	+	Department management costs (unless included in other headings)
5	=	Department costs
6	+	Procurement costs (unless included in other headings)
7	+	Enterprise management costs
8	=	Production prime costs
9	+	Marketing costs (unless included in other headings)
10	+	Total prime costs

11 + Percentage profit, related to processing costs (No 10 ./. materials, special tools, special appliances, tools and instructions related to the order or type as well as productive performances as per No 1)--unless another base has been prescribed.

12 + Extra profit

13 + Profit surcharges

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14 = Enterprise price

The enterprise price is like the industrial sales price unless product-related taxes or product-related subsidies are in effect.

The regulations separately issued by the director of the Office for Prices (Article 8 Paragraph 2) apply to the classification of the contribution to social funds as per Article 8 in the schedule of the cost and industrial price calculation.

Attachment 5 to the Preceding Order

Determination of the Indices of Cost Development

1. The index of real cost development (real cost index) is to be determined by the following formula:

$$I_{Kr} = \frac{K_1}{K_0} : I_q$$

Definition:

I_{Kr} = Real cost index

K_1 = Calculable costs of the new item to be introduced in production

K_0 = Recalculated total prime costs of the product of comparison when drawing up the calculation for the new item to be introduced in production

I_q = Index of the development of functional features $\left\{\frac{Q_1}{Q_0}\right\}$*

2. The index of the cost range development is to be determined by the following formula:

$$I_{KE} = \frac{KS_1}{KS_0}$$

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* In effect for industrial products are the "Principles for the Valuation and Comparison of the Functional Features of Industrial Products," ASMW-VW 1393 - published by the Standardization, Measurement and Commodity Testing Office.

Definition:

I_{KE} = Index of the development of the cost range of the individual item visavis the cost range of the product of comparison or the cost unit group (index of cost range development)

KS_1 = Cost range of the new item to be introduced in production

$$\left\{\frac{\text{prime costs}}{\text{enterprise price}}\right\}$$

KS_0 = Enterprise cost range of the product of comparison on the basis of recalculation or--if no such product is available--the cost unit group on the basis of the cost unit calculation

$$\left\{\frac{\text{prime costs}}{\text{enterprise costs}}\right\}$$

3. Recalculated total prime costs in the meaning of No 1 are the actual costs of the products of comparison recorded in accounting and statistics if they are calculable by their nature. The provisions of Article 29 Paragraph 5 of the Order on the simplification of the recalculation apply here (for example the recalculation of direct technological costs with actual costs and the indirect technological costs and overheads on the basis of the plan surcharge rates). The instruction of Nos 1 and 2 that recalculated total prime costs determined upon drafting the calculation for the new item to be introduced in production must be consulted, is met if no more than 6 months have elapsed since the recalculation was drafted.

4. If the recalculation proceeds in accordance with the instructions of accounting and statistics only for cost unit groups, and if the product ofg comparison as per No 1 is part of such a cost unit group, it is permissible to use the cost range of the cost unit group as a base, if a recalculation for the product of comparison would involve much administrative expense.

5. If planned industrial price changes are carried out and affect the costs of the new item to be introduced in production (K_1, KS_1), the recalculated total prime costs of the product of comparison or the cost unit group (K_0, KS_0) must be corrected for the purpose of determining the indices.

Attachment 6 to the Preceding Order

Proof of Efficiency for the Grant of Extra Profits

1. When applying for extra profits for new items to be introduced in production as per Article 12 Paragraph 2 letter c, enterprises must submit the following to prove economic efficiency:

1.1. The expenditure (calculable prime costs plus centrally confirmed assumed profit surcharge) for the manufacture of the products. Proof of expenditure must normally be conducted with the cost and industrial price calculation. Proof on the basis of sectional prices and sectional price normatives is permissible.

1.2. For export products[1]: The enterprise price by which the export profitability of the product of comparison is achieved. The determination of this enterprise price must proceed consonant with the regulations issued separately by the Office for Prices.

1.3. For capital equipment exlusively to be sold at home:

-- The industrial sales price expressing for the user the same extent of utility as the former employed product of comparison or the former technology. This industrial sales price is to be determined as per the provisions of No 2.

-- The product-related tax or price subsidy to be established according to legal regulations.

1.4. For consumer goods exclusively to be sold at home: The enterprise price corresponding to a real price index of 1. No 3 applies to its determination.

2. The industrial sales price as per No 1.3. is to be drafted by the following methods:

2.1. On the basis of price comparisons as per the quality index.

The following formula applies:

$$IAP_1 = IAP_o \; I_q$$

Definition:

IAP_1 = Industrial sales price expressing for the user the same utility as that of the product of comparison (real price index = 1)

IAP_o = Industrial sales price of the already produced item (excluding price surcharges for the "Q" quality mark or the "SL" [top design] designation or--if no such item is available--of the steadily imported and most comparable item

I_q = Index of the development of the functional features of the new item to be introduced in production vis-a-vis the product of comparison (quality index). The legal regulations apply to the determination of this index.[2]

If another index is to be used instead of the above mentioned, such as the process cost index, this must be preset in the special calculation guidelines with mandatory effect.

2.2. On the basis of other methods if a price comparison by the quality index as per No 2.1 is not feasible

-- For new means of production[3] with changed performance (productivity):

$$IAP_1 = IAP_o \cdot \frac{L_1}{L_o}$$

-- For new means of production[3] which, with the same performance (productivity) result in cost savings for the user:

$$IAP_1 = IAP_o + \frac{K_o - K_1}{\frac{1}{ND} + E_n}$$

-- For new means of production[3] which, with different performance (productivity), result in cost savings for the user:

$$IAP_1 = IAP_o \cdot \frac{L_1}{L_o} + \frac{K_o - K_1}{\frac{1}{ND} + E_n}$$

-- For new means of production[3] which exclusively serve the replacement of live by embodied labor:

$$IAP_1 = \frac{K_o - K_1}{\frac{1}{ND} + E_n}$$

Definition:

IAP_1 = Industrial sales price expressing for the user the same utility as that of the product of comparison

IAP_o = Industrial sales price of the already produced item (or total of the industrial sales prices of the formerly used product combination) without price surcharges for the "Q" quality mark or the "SL" designation

L_oL_1 = Performance (productivity) of the basis of comparison or the new means of production per time unit

K_oK_1 = Annual direct costs[4] for the use of the basis of comparison or the new means of production, related to the annual volume of products manufactured with the aid of the new means of production, excluding the costs for the depreciation of these means of production

ND = Normative useful life of the means of production according to the register of depreciation rates for capital equipment

E_n = Normative efficiency requirement on the use of new means of production (normative for the fund profitability to be achieved)

-- For new items to be introduced in production, which are employed by the user as materials, purchased parts or other working objects (including ancillary materials) and as short-lived means of production

$$IAP_1 = IAP_o \cdot \frac{M_o}{M1} + \frac{K_o - K_1}{M1}$$

Definition:

M_oM_1 = Volume (in units in kind) used for the employment of the basis of comparison or the new working object per unit of the product manufactured by them

K_oK_1 = Direct costs[4] per unit of the products manufactured by the basis of comparison or the new working object, without the cost of the consumption of the compared working objects

3. The following formula applies to the determination of the enterprise price as per No 1.4.:

$$BP_1 = BP_o \cdot I_q$$

Definition:

BP_1 = Enterprise price corresponding to a real price index of 1

BP_o = Enterprise price of the already produced item (excluding price surcharges for the "Q" quality mark and the "SL" designation or, if such an item is not available, the normally imported product of the greatest comparability)

I_q = Index of the development of the functional features (quality index)

4. More precise definitions and supplements for the proof of efficiency in terms of the national economy for the grant of extra profits will be issued and announced separately by the director of the Office for Prices.

FOOTNOTES

1. Export products in the meaning of this Order are all products designed by the plan to be exported.

2. Applicable to industrial products are the "Principles on the Valuation and Comparison of Functional Features of Industrial Products," ASMW-VW 1393 - published by the Standardization, Measurement and Commodity Testing Office.

3. New machinery, plant and other means of production to be introduced in production as per the nomenclature and register of depreciation rates for capital equipment in accordance with the Order of 20 May 1976 on the Depreciation of Capital Equipment (Special Issue No 550/3 of the GESETZBLATT.

4. Deemed to be direct costs of utilization are only costs, the absolute amount of which directly depends on the use of the basis of comparison and the new item to be introduced in production, such as costs of basic materials, energy, repairs, ancillary materials, wages for basic production workers, and so on.

Attachment 7 to the Preceding Order

General Regulations on the Work with Price Surcharges and Price Markdowns with Respect to Industrial Prices

1. Precondition for the Use of Price Surcharges and Markdowns

Price surcharges and markdowns may be applied only if this is provided for in legal regulations. The price surcharges and markdown stipulated in the legal regulations in effect continue to apply.

2. Price Surcharges and Markdowns in Accordance with Quality Regulations

The provisions of Articles 15 and 16 of the Order apply to price surcharges with the "Q" quality mark or the "SL" designation as well as to price markdowns for products not in compliance with the set quality regulations. Nos 5- of this Attachment also apply.

3. Price Surcharges and Markdowns Established in Principle Only in the Legal Regulations

3.1. If price surcharges and markdown are established in principle only in the legal regulations without a fixed amount, the contract partners are entitled to negotiate the amount of these price surcharges and markdowns on the basis of the Order and the relevant provisions stipulated in other legal regulations. Negotiations must proceed using the principle "whatever is beneficial for the national economy, must also benefit the enterprises and combines" and consonant with the claims for reciprocal economic benefits arising from the national objectives.

3.2. The reciprocal economic benefit for the partners is safeguarded if the ratio of price surcharges and markdowns to the prices stipulated in the legal regulations as to lastingly support the national objective expressed in the plan targets, especially the application of scientific-technological advances, the rapid introduction in production of

scientifictechnological results, the improvement of quality, the lowering of prime costs, the improvement of basic asset efficiency, the development of output on the basis of the material funds available and a genuine performance appraisal. Another precondition for safeguarding reciprocal benefit is the need

-- to meet the additional costs arising to the supplied plus the centrally confirmed assumed profit surcharge,

-- the customer obtains a profit. This profit may also consist in the avoidance or reduction of a loss.

4. Determination of the Amount of Price Surcharges and Markdowns in Principle Established in Legal Regulations

The following applies to the determination of price surcharges and markdowns, the amount of which needs to be negotiated between the contract partners in accordance with legal regulations--except in the case of quality reductions:

a) The price surcharges and markdowns are to be based on the greater or lesser costs arising to the supplier vis-a-vis the fixed price (calculable prime costs plus the centrally confirmed assumed profit surcharge). The determination of the probable greater or lesser costs must proceed as per the Order or the calculation regulations normally applying for the supplier. A simplified calculation method may be used. If a performance involves both greater and lesser costs by comparison with the basic version, the off-set method is to be used.

b) In addition to the calculable ecosts, the price surcharge may also include a profit surcharge in consideration of an additional profit arising from splitting the profit arising to the customer. The profit surcharge may not exceed 50 percent of the profit and not amount to more than 50 percent of the centrally confirmed assumed profit surcharge as per letter a.

c) At the request of the customer, the supplier is obligated to prove the basis of the price surcharge or markdown.

5. Types of Prices

Price surcharges and markdowns may be used for all types of prices. Moreover, several price surcharges and markdowns may be used for different reasons.

6. Showing up in Invoices

Price surcharges and markdowns must normally be singly shown in the invoices. Price surcharges for the "Q" quality mark and the "SL" designation are to be shown separately in invoices only if this is provided for in legal regulations or the customer needs the separate charge to safeguard a cost and industrial price calculation consonant with price regulations.

7. Passing on Price Surcharges to Third Parties; Granting Price Markdowns to Third Parties

Price surcharges may not be passed on to third parties without prior agreement. No obligation exists for passing on price markdowns to third parties. Legal regulations may provide otherwise. The provisions of No 2.4. of Attachment 1 apply to taking price surcharges and markdowns into account in the cost and industrial price calculation.

Attachment 8 to the Preceding Order

Drawing up and Using Methods of Relative Price Formation

The drawing up of methods of relative price formation must be based on the following principles:

1. Parameter Prices and Price Series

1.1. Parameter price formation is to be used when the products of a product group exhibit similar technical or technological data which vary in response to the requirements on the respective product, and when there is a direct connection with the costs arising for the production of the respective variations. The costs, corresponding to the genuinely achievable capacity of the particular industry or product group, is to be determined for the possible variations on the basis of Articles 5-11 and assigned to the parameters. To be used as parameters here are the functional features of the products, provided there is a direct connection between costs and parameter.

1.2. The formation of industrial prices on the basis of price series is to be used for product groups, the single products of which are manufactured according to similar design principles and of similar or comparable materials, but which differ from one another in their dimensions, volume, ass or other criteria of this kind. The costs corresponding to the genuinely achievable capacity of the particular industry or product group must be determined for the most important (representative) products of the product group on the basis of Articles 5-11 (standard calculation), and the price series subsequently drafted on that basis. Graphic methods may be used.

1.3. If, in connection with new items to be introduced in production, new parameter prices and price series are drafted, extra profits must be incorporated in the parameter prices and price series to stimulate the production of these items. The determination of the extra profit must proceed on the basis of the costs and the upper limit for the enterprise price of representatives or the regulations of Attachment 6 -- related to representatives. The extra profit so determined becomes a component of the parameter prices and price series. No extra profit is granted in addition to parameter prices and price series.

1.4. Enterprises must form the industrial prices of new items to be introduced in production

-- According to the preset parameters, or

-- By interpolation or extrapolation (for price series). In the case of industrial prices formed by extrapolation, the cost and industrial price calculation to be submitted serves to prove that the legitimacies of the price series apply to their expansion also.

2. Sectional Prices and Sectional Price Normatives

2.1. Industrial price formation by sectional prices and sectional price normatives is to be stipulated for product groups the individual products of which arise from the various combinations of recurrent part products and part performances capable of being defined.

The costs corresponding to the genuinely achievable capacity of the respective industry or product group is to be determined for the part products (such as subassemblies) and part performances (such as processes for the manufacture of textile products) according to the provisions of Articles 5-11; sectional prices and sectional price normatives must be drafted on this basis.

2.2. Enterprises must draft the industrial prices of new items to be introduced to production by the addition of sectional prices and sectional price normatives. The greater efficiency of these products is to be taken into account as follows:

a) If materials costs or processes are saved or costs reduced by the combination of operations as the result of the introduction of new technologies, the sectional prices and sectional price normatives for the formation of new items to be introduced in production may continue to be the bases. If, as per these price formation methods, the costs of the basic material are to be calculated at the actual amount permissible in terms of the price law, savings achieved by the more rational materials use or materials substitution are calculable upon application by the enterprises. The provisions of Article 3 Paragraph 2 apply mutatis mutandi to the verification of the guarantee of functional qualities.

b) If, by comparison with the earlier similar product, the new item to be introduced in production achieves greater efficiency for the user--for example by new combinations of operations and subassemblies--, an extra profit as per Article 12 is to be incorporated in the industrial price. The determination of the extra profit is to be based on

-- The costs of the manufacture of the new product; these costs are to be shown by the addition of the sectional prices and sectional price normatives;

-- The upper limit for the enterprise price as per the tasking workbook; if no upper price limit is present, the procedure to be used must follow the provisions of Attachment 6.

2.3. When new part products or part performances are introduced in production but the provisions of No 2.2. sentence 1 are not applicable, new sectional prices and sectional price normatives must be drafted as per the provisions of No 2.1. If the new part products and part performances result in greater efficiency, extra profits as per Article 12 are to be incorporated in the sectional prices and sectional price normatives. No 2.2. letter b applies mutatis mutandi to the determination of the extra profit.

3. Margin Calculation

3.1. The margin calculation is to be used for the formation of industrial prices of new items to be introduced in production, which are basically the same as another products (base product)--for which an industrial price is available--but which differs from the latter by differences with regard to various components. In these cases the industrial price of the base product must be amended by the expenditure (calculable prime costs plus centrally confirmed assumed profit surcharge as per Articles 5-11) for those parts of the product by which the new item to be introduced in production differs from the base product.

For the consideration of extra profits as per Article 12, the following applies:

a) If the industrial price of the base products incorporates an extra profit, and if the conditions for the efficiency of the new item to be introduced in production are the same as with respect to the base product, the extra profit is to be incorporated in the industrial price of the new item to be introduced in production in relation to the assumed profit. The date fixed for the planned phase-out of the extra profit for the base product applies to the new item also.

b) If, by comparison with the base product, the new item to be introduced in production results in greater efficiency for the user, the extra profit is to be determined as per Article 12 and incorporated in the industrial prices. The basis for this is as follows:

-- The costs of the manufacture of the new item to be introduced in production; these costs are to be verified by the margin calculation;

-- The upper limit for the enterprise price as per the tasking workbook; if there is no upper price limit, the procedure as per the provisions of Attachment 6 must be followed.

3.2. The special calculation guidelines or other price regulations must issue instructions on

a) The scope of the margin calculation, for example with respect to the permissible proportion of divergences of the new item to be introduced in production from the base product; 20 percent may not be exceeded;

b) The methods to be used for the margin calculation;

c) The exclusion of specific product groups from the use of the margin calculation. The use of the margin calculation is always excluded at a change of generations.

Attachment 9 to the Preceding Order

Formation and Use of the Risk Fund

The risk fund must be formed and spent in accordance with the following principlesin order to meet the costs arising in cases of risk. In this context the costs to be met from the enterprise result and the risk fund must be strictly distinguished.

1. Cases of Risks

1.1. The manufacturer uses the risk fund to finance the costs of additional construction services and the manufacturing services arising therefrom, which, due to defects noted at the assembly or start-up operations, are needed to safeguard the contractually agreed quality instructions, such as performance parameters.

1.2. If the obligation to the payment of compensation or contract penalties arises from other reasons than those listed in No 1.1., no case of risk is involved, and the risk fund may not be called upon.

2. Formation of the Risk Fund

The risk fund must be formed by the manufacturing enterprise on the basis of the allocations set by the director of the Office for Prices. It must be kept in a special account.

3. Use of the Risk Fund

3.1. The risk fund is to be used to meet the costs arising from cases of risks as per No 1.1. The precondition for using the risk fund is evidence of

-- The additional costs arising, and

-- The order for the additional construction performance.

3.2. The risk fund may be carried over to the following year. If money in the risk fund carried over to the following year exceeds 50 percent of the average annual allocations, the use of the moneys called upon must be decided by the competent industrial ministers following agreement with the director of the Office for Prices and the Minister for Finance. On that occasion the amount of the allocations to the risk fund must be reviewed and, if necessary, revised.

Attachment 10 to the Preceding Order

Rounding off Table for Industrial Sales Prices of Means of Production

1. The following table is to be used to round off the industrial sales prices for means of production, unless other regulations have been or will be issued in legal regulations or by decisions of the Office for Prices.

Industrial sales prices per unit of quantity above	M1 to M10	
	to full	M0.05
	or	M0.10
Industrial sales prices per unit of quantity above	M10 to M50	
	to full	M0.10
	critical value	M0.05
Industrial sales prices per unit of quantity above	M50 to M100	
	to full	M0.50
	or	M1.00
	critical value	M0.25
	or	M0.75
Industrial sales prices per unit of quantity above	M100 to M1,000	
	to full	M1.00
	critical value	M0.50
Industrial sales prices per unit of quantity above	M1,000 to M10,000	
	to full	M5.00
	or	M10.00
	critical value	M2.50
	or	M7.50
Industrial sales prices per unit of quantity above	M10,000 to M100,000	
	to full	M50.00
	or	M100.00
	critical value	M25.00
	or	M75.00
Industrial sales prices per unit of quantity above	M100,000 to M1 million	
	to full	M100.00
	critical value	M50.00
Industrial sales prices per unit of quantity above	M1 million	
	to full	M1,000.00
	critical value	M500.00

From the critical values cited prices are to be rounded off upward, below them rounded off downward.

Rounding off of prices above M1 to M10 is to proceed as follows with respect to pfennig positions:

For the 1st and 2d pfennig downward to full	10 pfennig
For the 3rd and 4th pfennig upward to full	5 pfennig
For the 6th and 7th pfennig downward to full	5 pfennig
For the 8th and 9th pfennig upward to full	10 pfennig

The preceding rounding-off table is to be more precisely defined if so required by the specific conditions in the respective industry. Care must be taken to ensure--and that holds good especially for the rounding-off of the industrial sales prices on the scale "above M1 to M10"--, that the required price differentiations between various sizes or qualities are not adversely affected by the rounding-off. The rounding-off regulations to be issued apply to all products, the industrial sales of which are to be formed according to the provisions of this Order. Existing industrial sales prices are not to be changed.

2. The special calculation guidelines may stipulate that industrial sales prices for material services are also to be rounded off according to the table as per No 1.

3. If, in exceptional instances, the wholesale sales prices of means of production, and the industrial sales prices arise by the use of the rebate system, such industrial prices are not to be rounded off.

4. The table as per No 1 does not apply to products and performances in the scope of the Order of 10 March 1971 on the Formation of Industrial Prices for Investment Services and the Export of Plant by General and Main Contractors (GBl II No 32 p 259).

5. If, in specific instances, a product-related tax or product-related subsidy is established for means of production, the director of the Office for Prices may, on the recommendation of the industrial ministers, decide that enterprise prices also are to be rounded off in accordance with this Attachment, if by so doing the settlement of the product-related taxes and subsidies is simplified.

Attachment 11 to the Preceding Order

Independent Fixing of Industrial Prices by Enterprises on the Basis of State Confirmed Price Formation Methods

1. Enterprises are authorized to independently fix industrial prices only if they have been issued the authorization by legal regulations or a special decision by the Director of the Office for Prices on the recommendation of the combine general director.

2. The legal regulations or special decisions by the director of the Office for Prices on the independent fixing of industrial prices by the enterprises must preset:

   -- The centrally confirmed price formation method;

   -- The decision whether the industrial prices are to be formed

      . On the basis of a prior calculation, or

      . A recalculation for the purpose of price formation.

   This is to be based on the following aspects:

      . The independent fixing of industrial prices by enterprises on the basis of a prior calculation is to proceed in particular if the products of a product group are normally manufactured in great numbers and a multitude of variants which have a relatively low value per product unit, and if independent fixing on the basis of a recalculation or the fixing of the industrial prices by the price organs would require a great deal of labor costs.

      . The independent fixing of industrial prices by the enterprises on the basis of the recalculation for the purpose of price formation is to proceed in particular if the amount of the costs is vitally determined by the concrete terms of the respective order, and if it is not possible at the time the order is received to calculate these costs with sufficient certainty.

3. In the independent fixing of industrial prices of the enterprises on the basis of a recalculation for the purpose of price formation and after agreement on a provisional price as per the regulations of the contract law, the enterprises must determine the industrial price in accordance with the preset price formation method.

   The enterprises must charge

   -- The industrial price arising on the basis of the recalculation provided it does not exceed the agreed provisional price;

   -- The agreed provisional price if it is lower than the industrial price arising on the basis of the recalculation. It may be agreed in the business contract that the industrial price arising on the basis of the recalculation is actually charged.

4. The enterprises must compile the independently fixed industrial prices in lists or other records. The listed prices must be used by the enterprises even if the same product is manufactured repeatedly or the same service rendered repeatedly.

5. The provisions of Nos 1-4 apply mutatis mutandi to agreed prices, except for agreed prices as per the Order of 10 March 1971 on the Formation of Industrial Prices for Investment Services and the Export of Plant by General and Main Contractors (GBl II No 32 p 259).

   Provisions in legal regulations in effect, according to which an additional profit arising from splitting profits may be agreed and included in the industrial price upon formation of agreed prices, are to continue in use; the additional profit arising from splitting profits (profit surcharge) may amount to 50 percent of the profit but no more than 50 percent of the centrally confirmed assumed profit surcharge. No additional profit arising from profit sharing may be agreed for wage labor.

6. Combines are entitled to obligate the enterprise to submit price applications if similar products, for which legal regulations stipulate the independent fixing of industrial prices on the basis of centrally confirmed price formation methods or the formation of agreed prices, are repeatedly manufactured or the same service is rendered repeatedly.

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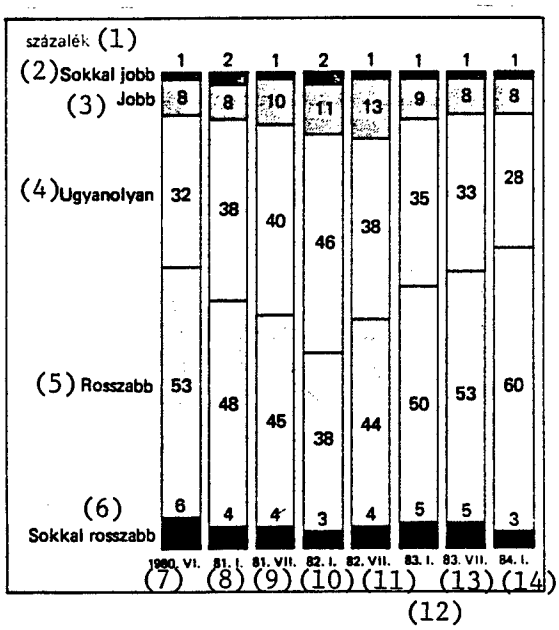
POPULATION PESSIMISTIC ABOUT ECONOMIC SITUATION

Budapest HETI VILAGGAZDASAG in Hungarian 9 Jun 84 pp 4-5

[Article by Gabor Strausz: "Family Impressions--Economic Public Opinion Research"]

[Text] Are we optimists or pessimists--if we look into the family bank account? We are reporting for the third time in the columns of HVG [HETI VILAGGAZDSSAG] (see number 30, 1983 and number 4, 1984) about answers given to this question, on the basis of the results of a series of surveys in the course of which the National Market Research Institute regularly inquires how about 1,500 Hungarian households feel about the development of their own material situation or of the economic situation of the country. The subjective opinion of all of us can be concluded from the answers of those questioned. On this occasion, for the first time in the columns of HVG, an expert guiding the public opinion research also reports on how the consumers questioned feel about the supply of goods.

Table 1. How do you judge your present material situation compared to one year earlier?



KEY:

(1)	percentage	(8)	Jan 81
(2)	Much better	(9)	Jul 81
(3)	Better	(10)	Jan 82
(4)	Same	(11)	Jul 82
(5)	Worse	(12)	Jan 83
(6)	Much worse	(13)	Jul 83
(7)	Jun 80	(14)	Jan 84

According to the most recent survey, in January 1984, the approximately 1,500 households questioned judged the development of their own material situation and of the general economic condition of the country to be less favorable and the change in the level of the supply of goods to be more favorable than 6 months earlier.

Among other things what may stand in the background of the opinions speaking of a worsening material situation is the fact that the outflow of wages in the fall of 1983 was greater than planned and to counterbalance this there were central price increases not planned originally--for example, bread, cooking oil and sugar become more expensive. The effect of this and the effect of the new price measures in January of this year immediately before the survey--for example, meat, heating oil, night current, building materials, cars and beer became more expensive--show in how the households questioned judged in January 1984 the development last year of their material situation.

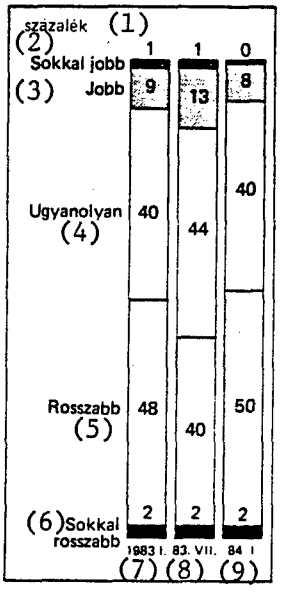
The ratio reporting an improvement in their material situation (9 percent) has not changed since the summer of 1983 while the ratio indicating that their material situation is unchanged fell from 33 to 28 percent and the ratio reporting a worsening increased from 58 to 63 percent. Thus, according to the public opinion research data, there was an increase in the number of those for whom the increase in income could not entirely counterbalance the burdens of the price increases.

The public opinion researchers turned special attention to those households --that is, 9 percent of all families questioned--which claimed that they were able to improve their standard of living even with the increasing living costs. It can be established from the answers of these households that of the 100 households which felt that their material situation had improved in 1983 a total of 34--that is, only 3 percent of all households--attributed the increase in the standard of living to the fact that income from their main jobs increased, and this partly due to changing place of work or type of work. In 23 households--2 percent of all households studied--the ratio of earners and dependents changed favorably; that is, for example, there were more earners in the family, the wife went back to work from child care benefits or the number of dependents became fewer. Supplementary income of members of the household--gardens, second jobs, extra work, work done in addition to a pension--resulted in an improvement in the material situation in 18 households while the cause of the improving material situation of the household was an end to expenditures connected with construction or equipping a dwelling, in 14, and finishing paying off National Savings Bank loans, in 11.

The change in the degree of optimism and pessimism may be made easier to see by a calculation in which we multiplied the ratio of answer variations by a corresponding variation number (2 for much better, 1.5 for better, 1 for the same, 0.5 for worse and 0 for much worse) and then summed the products. The value of the index calculated in this way can be between 0 and 200; the value 100 reflects no change. If those indicating a worsening are in the majority the value of the index remains under 100; if it is those expecting an improvement then it goes over 100.

The index for the development of the personal material situation fell from 73.5 in the summer of last year to 72.0 points in January of this year. Those living in Budapest reported the least favorable development of the standard of living (64.5 points) while those living in towns and villages felt the price increases less (75.5 points). The differences (in part) can obviously be attributed to the fact that the pocketbooks of those living in the capital were hardest hit by the increase in meat prices.

Table 2. How do you judge the general economic situation of the country compared to one year earlier?



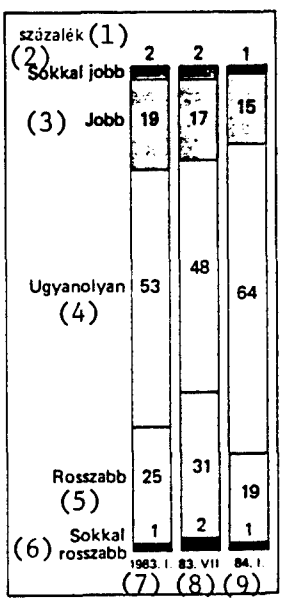
KEY:

(1) Percentage
(2) Much better
(3) Better
(4) Same
(5) Worse
(6) Much worse
(7) Jan 83
(8) Jul 83
(9) Jan 84

As compared to 42 percent in July 1983, in January 1984 52 percent of the households considered the general economic situation of the country to be worse than one year earlier. But in evaluating this change in opinion one must

remember that in the fall of 1983 there was again an increase in the press communiques discussing the economic difficulties of the country--and the consequences of this affecting the standard of living. But the index figure for the economic situation of the country--despite the fact that it fell in 6 months from 86.6 points to 77.0 points--is still substantially higher than the index indicating the material situation of the households (72.0). This indicates that the economic difficulties of the country do not sink so deeply into the awareness of people as it does when their monthly expenses are used up more quickly than they are used to.

Table 3. How do you judge the supply of goods in the shops compared to one year earlier?



KEY:

(1) Percentage
(2) Much better
(3) Better
(4) Same
(5) Worse
(6) Much worse
(7) Jan 83
(8) Jul 83
(9) Jan 84

The majority of those questioned considered the supply of goods in the shops unchanged. In January 1984, 16 percent of the households reported a better supply of goods than one year earlier. According to 64 percent of the households the level of supply was unchanged and according to 20 percent it had deteriorated.

It is worthy of note that in the course of the past year the households questioned saw the change in the economic situation of the country and in the supply of goods in the shops tending in opposite directions. For example, the development of the general economic situation of the country was judged

relatively most favorable in July 1983, in the various periods of the survey, but the most criticism of the supply of goods in the shops fell in just this same period. Of course, all this may be interdependent with the seasonal unevenness in the supply of goods. Probably the buildup of stock before Christmas and the greater import of consumer goods in this period have a role in the fact that in general the families express more satisfaction concerning the supply of goods in January than they do in July.

The differing earning structure and level of needs of the several social strata may explain the finding of the survey that the manual laborers are substantially more satisfied with the development of the supply of goods than are the professional. But the general finding of the public opinion research that the households are most satisfied with the development of the supply of goods, judge the general economic situation of the country to be less favorable than this and consider the change in their personal material circumstances even more unfavorable is uniformly true of every social stratum.

Table 4. Judgment of the present situation compared to one year earlier. (Calculation by the National Market Research Institute). Unchanged equals 100.

(1) A felmérés ideje	(2) A személyes anyagi helyzet	(3) Az ország gazdasági helyzete	(4) Az áruellátás
	(5) megítélésének mutatószámai		
(6) 1980. VI.	73,0	.	.
1981. I. (7)	78,0	.	.
(8) VII.	79,5	.	.
1982. I. (9)	85,5	.	.
(10) VII.	81,5	.	.
1983. I. (11)	75,5	79,5	98,0
(12) VII.	73,5	85,5	93,0
1984. I. (13)	72,0	77,0	98,0

KEY:

(1)	Time of survey	(7)	Jan 81
(2)	Personal material situation	(8)	Jul 81
(3)	Economic situation of country	(9)	Jan 82
(4)	Supply of goods	(10)	Jul 82
(5)	Index numbers of judgment	(11)	Jan 83
(6)	Jun 80	(12)	Jul 83
		(13)	Jan 84

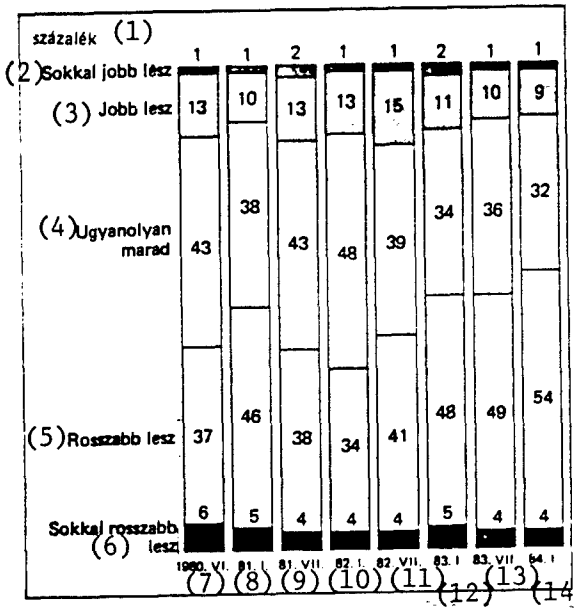
Table 5. Judgment of the situation to be expected after one year compared to the present. (Calculation by the National Market Research Institute). Unchanged equals 100:

(1) A felmérés ideje	(2) A személyes anyagi helyzet	(3) Az ország gazdasági helyzete	(4) Az áruellátás
	(5) megítélésének mutatószámai		
1980. VI. (6)	83,0	.	.
(7) 1981. I.	78,0	.	.
VII. (8)	85,5	.	.
(9) 1982. I.	86,5	.	.
VII. (10)	84,0	.	.
1983. I. (11)	78,5	87,5	99,0
(12) VII.	77,5	94,0	98,0
1984. I. (13)	74,5	91,0	102,5

KEY:

(1)	Time of Survey	(7)	Jan 81
(2)	Personal material	(8)	Jul 81
(3)	Economic situation of country	(9)	Jan 82
		(10)	Jul 82
(4)	Supply of goods	(11)	Jan 83
(5)	Index numbers of judgment	(12)	Jul 83
(6)	Jun 80	(13)	Jan 84

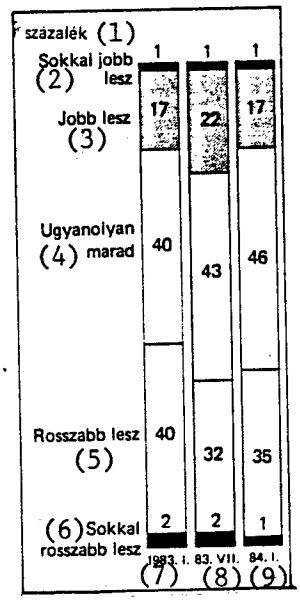
Table 6. How do you judge your material situation, compared to present, to be expected after one year?



KEY:

(1)	Percentage	(8)	Jan 81
(2)	Much better	(9)	Jul 81
(3)	Better	(10)	Jan 82
(4)	Same	(11)	Jul 82
(5)	Worse	(12)	Jan 83
(6)	Much worse	(13)	Jul 83
(7)	Jun 80	(14)	Jan 84

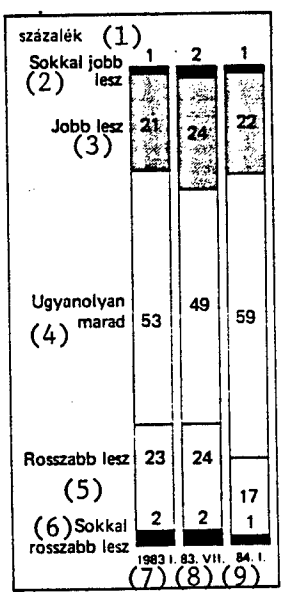
Table 7. How do you judge the economic situation of the country to be expected after one year?



KEY:

(1) Percentage
(2) Much better
(3) Better
(4) Same
(5) Worse
(6) Much worse
(7) Jan 83
(8) Jul 83
(9) Jan 84

Table 8. How do you judge the level of the supply of goods to be expected after one year?



KEY: [Same as for Table 7]

In regard to prospects for the future the opinion of the households questioned reflects a peculiar mixture of pessimism and optimism. They are pessimistic in that they expect their own material situation and the economic situation of the country to become even more unfavorable. The pessimism of those questioned appears in the fact that in both cases their predictions for the future are less favorable than they were 6 months earlier. But at the same time the families are optimistic because they feel that the worsening of their personal material circumstances and of the economic situation of the country will be of less magnitude in 1984 than it was in 1983. The optimism of those questioned is unambiguous in regard to the development to be expected in the level of the supply of goods. They not only feel that the level of the supply of goods to be expected in the future will be more favorable than at present, their expectations are more optimistic than ever before--the ratio of those expecting an improvement (23 percent) considerably exceeds that of those expecting things to get worse (18 percent).

The households questioned see little interdependence between the economic situation of the country and their own material prosperity.

8984
CSO: 2500/370

CONTROVERSY OVER COOP AUXILIARY ACTIVITY CONTINUES

Budapest OTLET in Hungarian 19 Apr 84 p 4

[Article by Miklos Breitner: "A Hornets' Nest"; passages within slant lines are in italics]

[Text] Anyone attempting to compare the economy and viability of the coops' auxiliary industries with those of state-operated industries finds himself reaching into a hornets' nest. In this area, there is too much emotion and too little rational argument, too many rumors and too few reliable statistics, too much haughtiness and arrogance, and too little understanding and consideration.

What are the well-known claims? Here is a sample: "Workers desert industry in order to join the auxiliary industrial enterprises of agriculture." "Consequently, industry is unable to take full advantage of expensive equipment." "Workers are enticed away by the strong coops, because those can pay more." "Even in general, earnings are higher in the auxiliaries." "It became a mass phenomenon that coops lend the enticed workers back to state-operated industries, thus the latter's profit is siphoned off by agriculture." "The coops' auxiliary enterprises work for astronomical fees and pocket extraordinary profits." The last statement is so true--some claim--that today /approximately half of the total profit of the coops is derived from industrial activities/. "All of this can be blamed on the inequalities in the economic controls." "What would happen to the 'shacks' if they were treated equitably?" is the question voiced from time to time.

The questions and the claims are disturbing. If they are valid, that makes the planners of the country's economic policy, and the administrators of the regulations, appear in a poor light: This would indicate that the country was in considerable disorder. Well, researchers from the Institute of Industrial Management (ISzSzI) took on the task of clarifying the situation and, based on calculations, defining the extent of industrial activity performed by the coops (and by agriculture in general) and its effect upon the management of the work-force, wages and the like. They /did a thorough and respectable job/. This should be emphasized, because in some cases social scientists conduct "research" which merely confirms the "expectations" of the commissioning party...

But let us look at the facts. First of all, it is worth stating that the volume of industrial capacity which was developed under the jurisdiction of agriculture does not represent competition for state-operated industry, since the agricultural coops produce only 2.2 percent of the total industrial output. Furthermore, in 1980 about 70 percent of their industrial activities was in the area of food production and service, while only 10 percent could be assigned to the most criticial specialization, machine industry. Another observation: The poorer the soil cultivated by a state cooperative farm, the higher the proportion of its income derived from industrial activities. For example, more than half of the coops which pursue auxiliary activities in the capital city [do this because they] operate under unfavorable agricultural conditions. (One indirect result of this is that the income thus earned reduces their demands for state subsidy.)

Without delving into the price and wage regulations in the two economic activities, we can sum them up in the following way: The prices charged by the auxiliary industries more or less correspond with those prevailing in state-operated industry; as a matter of fact, when an auxiliary enterprise takes over the manufacturing of a certain product, it also accepts the price charged by industry. Of course, it should be mentioned that the auxiliary enterprises undertake a high proportion of projects which do not fall under price regulations, and this also means that /supply and demand/ influence the prices considerably. According to the latest indications, however, in certain areas there are already signs of excessive supply, and this will result in the reduction of prices. When it comes to the regulation of earnings in the auxiliary enterprises, there are, of course, significant differences, but at the same time the amount of combined taxes paid by the industrial branches of agricultural coops is three times as high, and even compared to the added value it is 50 percent more than what state-operated industry pays. (The difference between the two indicators is derived from the fact that the production or services of the agricultural enterprises usually require less material and more labor.) Thus, even if there are differences in the regulations, those usually favor state-operated industry.

The most serious worry, at least as far as the state-operated industry is concerned, appears in /the management of labor force and wages/. As revealed by various statistics, there are altogether 28,000 workers "at stake." True, the auxiliary enterprises significantly increased the number of their workers between 1975 and 1980. However, if we examine who went from where to where, we find, for example, that state-operated industry "gave" most of its workers to the branches of transportation, communications and commerce. The auxiliary enterprises were more likely to shift their own employees from full-time agricultural activities to industrial ones. Great numbers leaving state-operated industries were made up of young and low-paid workers.

Perhaps a direct result of the above--and this may come as a surprise--is that average monthly wages are approximately 15 percent lower in the auxiliary enterprises than in the corresponding state-operated industries. What is more, if we convert the monthly wages into hourly rates, the difference is 27 percent. (It must be admitted that the "accusation" of higher wages, as

compared to industry, used to be true in 1975; thus, this once-valid belief continues to survive.) An additional point of interest is that even full-time agricultural workers have higher wages than those employed in the auxiliary enterprises. Undeniably, there are a few exceptionally well-paid workers, and many, many low-paid unskilled or semi-skilled ones, but this may not be a problem. A skilled worker finds it worthwhile to join the coops, and, at least in this manner, the often-mentioned principle of wage differentiation is realized.

We might say: Wages are not everything, let us look at the earnings! There are no great differences here either: In the factories earnings exceed wages by 3.5 percent, while in the auxiliaries by 4 percent. The other "extras" (the small plot of land for a garden, the mileage reimbursement for the use of one's car, etc) differ widely, but their average amounts to 300 forints monthly. In sum, earnings in the auxiliaries are not higher but lower than in the state-operated industries. Thus, if we find fault with the occasional high earnings, which may or may not be in accordance with regulations, we should phrase our objections in the following way: Why don't the leaders of state-operated industries accept the controversies which unavoidably result from rewarding their outstanding workers with high pay? Or, to express it more simply: Why don't they discriminate?

There are still the matters of profitability and efficiency. Rough estimates show that in the auxiliary industrial enterprises of agricultural units the rate of profitability is 16 percent, while in state-operated industries it is 7.2 percent. Since we have seen that this is not the result of charging higher prices, then it must mean that the cost of production--but not the taxes!--must be lower. An interesting calculation showed that in the auxiliaries operating in Budapest the indirect cost of production was 80 to 120 forints per hour, while in the large factories the cost of 800-900 forints per hour is now unknown. Of course, there are explanations for the lower cost levels: The auxiliaries spend less on social benefits, their depreciation is smaller, they do not have to train their workers, the amount spent by them on technological development is negligible, and, to be sure, the lower wages also moderate the expenses. In addition, the auxiliaries obtain the "fattest" contracts on the market, something which we could refer to as quick adaptability to market conditions and seeking out the demands. When we talk about efficiency, in the classical sense of the word, the auxiliaries have little reason to be proud: Their efficiency rate is below half of that in state-operated industry, and they are less than one-fifth as well equipped. Thus, we can only talk about shacks, instead of the value-producing abilities of rows of modern machinery. In other words, we are talking about /units which produce cheaply and profitably, and complement the activities of domestic industry/.

And perhaps this is the gist of the matter. We should quit contrasting the two spheres of production and instead concentrate on another issue: What should be manufactured where? Large factories should not produce something which could be made under primitive conditions, in a lean-to, using unskilled labor. Conversely, the auxiliaries should not undertake an activity dependent upon modern technology which exists only in the large plants. Accordingly,

this "topic" should cease being such a hornets' nest, where the "interloper" can count on being stung. Rather it should become the kind of "hornets' nest" which appears in our cookbooks: made of walnuts, almonds, made tasty with rum and whipped cream. In other words, /a rational distribution of work, derived from the inherent process of Hungarian economic management/.

12588
CSO: 2500/402

BRIEFS

HIGHER INTEREST ON DEPOSITS--The minister of finance has changed the interest paid on 3-year fixed deposits starting on 1 July. The interest rate has risen from the current 7 percent to the new rate of 8 percent on these accounts. The change is retroactive, so the rate increase is effective for accounts established earlier. Interest will not be paid if the account is withdrawn before the maturity date. The arrangements also call for raising the interest paid on long-term certificates of deposit, which are designed to encourage savings. Interest on certificates of deposit exceeding 1 year will rise to 4 percent from the current 3 percent. Two-year deposits will remain at 6.5 percent, and 3-year rates will rise from the current 7 to a new rate of 8 percent. Five-year deposits will now pay 9 percent, instead of the current 8 percent. Interest on certificates of deposit will also be retroactive. The denominations of certificates available will remain unchanged at 5,000, 10,000, 20,000 and 50,000 forints. [Excerpts] [Budapest MAGYAR HIRLAP in Hungarian 1 Jul 84 p 5]

WAGE INCREASES--According to the economic plan, this year, average wages and incomes, using wage preferences and wage policy actions, are supposed to rise by 4.8 percent. The State Wage and Labor Office's analysis shows that wage increases in the material sector in the first quarter averaged 6.6 percent. Wage development was below average in state sector agriculture, forestry, transportation and communications. Wage increases were above average in commerce, industry, water management and construction. Above average growth is typical of construction and industry. Income growth opportunities in the following industries are certainly behind the average of the entire economy: transportation, forestry, welfare, health-care, cultural, educational and administrative circles. Wage increases vary by a magnitude ranging from 2 to 12. [Excerpts] [Budapest NEPSZAVA in Hungarian 1 Jul 84 p 1]

PUBLIC PHONE PRIORITY--It is well known that the phone situation in Hungary is bad. The waiting list has been growing longer for the past 30 years, and it is approaching a quarter million in the capital alone. The post office is falling increasingly behind. The situation is worse than average in the large apartment complexes. The emphasis will be placed upon maintenance. This year, 100 million forints will be spent on maintaining and repairing public phones. This is several times more than what was spent several years ago. The placement of public phone will receive priority in places where telephone service is very poor, that is, in large apartment complexes. Due to shortages of needed materials, cables and other supplies, new apartment complexes are unable to install

permanent telephone lines during construction. So, temporary solutions are needed. The specialists at the post office are seeking modern temporary telephone technologies. They are working with radio transmitted telephone systems, as was suggested by the Parliament's construction and transportation committees. [Excerpts] [Budapest NEPSZABADSAG in Hungarian 1 Jul 84 p 9]

CSO: 2500/458

DILEMMAS OF ENERGY RESOURCES PRICING, DEVELOPMENT

Warsaw PRZEGLAD TECHNICZNY in Polish No 18, 29 Apr 84 pp 11, 12

[Article by Czeslaw Mejro: "Energy Economy Disincentives"]

[Excerpts] Current price patterns and tariff anomalies can be illustrated on the example of energy. Three alarming points have to be noted in this area. First, the arbitrarily established and now binding fuel and energy prices are too low. Second, price relations between individual energy carriers are inadequate. Third, investment expenditure on modernizing and building energy facilities has been going up.

Wholesale coal prices in the domestic market are Zl 2,000-2,500 for a ton, while prices for coal exported to the West late in 1983 were (depending on coal quality), $45-65. At the official exchange rate of Zl 110 to the dollar, this corresponds to a transaction price of Zl 5,000-7,000 for a ton, or roughly 150 percent above domestic prices.

I am inclined to believe that, under current economic conditions, foreign exchange gained from exports should be calculated in zloty at more than Zl 110 for the dollar. If private buyers decide to pay Zl 600 or even more for the dollar they need to buy a car, which increasingly often is being used for limited recreation only, then Poland could (and does) certainly pay much more than Zl 110 for the dollar in order to buy valuable industrial plant, tools, electronic subassemblies or medical equipment; accordingly, the value of foreign exchange gained in exports, say of coal, should also be set much higher than at the now binding Zl 110.

Meanwhile, a factory which could achieve lower coal consumption by substituting a new boiler for an obsolete one would have to record this saved coal's value at its currently binding domestic price. So, many such a factory will refrain from bidding for such an "unprofitable" innovative investment.

Too low fuel and energy prices also account for the failure to fully realize all consequences of using energy-intensive technologies, or of exporting goods the production of which necessitates greater energy costs in foreign-exchange terms than the foreign revenues Poland gains by exporting them.

Take another example. Poland embarked on a family-house development program, but hardly anyone points out this must lead to a 30-percent increase in demand for heating fuel compared to analogous heating-fuel demand levels in multi-storey building developments. Furthermore, when this decision was made nobody seemed to care about an appropriate supply of thermo-insulating materials, or to make sure family-house building should be confined to terraced or row developments, because these yield significant heat (as well as building materials) economies compared to isolated single or twin homes.

Needless to say, fuel and energy price increases might set off a dangerous price spiral for many products. But it should be borne in mind that energy's share in manufacturing industry's total production costs is small (some 3-5 percent), and that it would be fair to tell the heavy industries to reduce their energy consumption rates because possibilities for this are still considerable (although resorting to these possibilities is difficult to justify precisely on account of too low fuel and energy prices).

If they are set at adequate levels, fuel prices may produce effects not only in fuel consumption itself but also, indirectly, in significant investment expenditure reductions.

Take the following example: 50-70 percent of the energy supplied to a housing estate goes for heating and ventilation, 15-30 percent for water heating, 5-8 percent for cooking, and 6-14 percent for illuminating and operating home facilities such as radios, TV sets, refrigerators, or washing machines. In compact housing estates, room and water heating is conducted through a hot-water network; energy supplied for the fourth group is practically confined to electricity. So, gas networks and installations, as far as they exist in a housing estate, are used to convey the relatively small amount of energy which are needed for cooking. Investment outlays needed for building gas networks, which are huge in themselves, are further enhanced by costs of building extra ventilation chimneys which are mandatory by law in any building supplied with gas installations. Many countries, including East Germany, Czechoslovakia, the Soviet Union and West Germany, give preference to electric cookers; although this saves directly no electric energy, it does reduce overall costs of infrastructure in housing estates because it makes gas networks superfluous.

Those who object to using electric cookers say there are too few flat-bottom pots in Poland which are needed to reduce heat losses arising due to air cushions between oven plates and ill-fitting pot bottoms. This is a ludicrous argument. What might be a serious argument is the absurd price differential between natural gas (Zl 2.70 per $1m^3$) and electricity (Zl 1.80 per kWh) supplied to private homes.

Since users get 8,200 kcal with 1 m^3 of natural gas, and only 860 kcal with 1 kWh, then, even if electric cookers were considerably more efficient than gas cookers, gas for private consumers will still be relatively 4-5 times cheaper [than electricity], and any attempt to cut off its supply to homes would unleash violent consumer protests. The situation would be different if 1 m^3 of gas were, say, 4 times more expensive than 1 kWh of electric energy, which would be more adequate a reflection of actual cost relations between these two kinds of energy.

In 1983, natural gas transaction prices ranged from 140 to 160 dollars for 1,000 m^3. At the Zl 110 exchange rate to the dollar, this yields some Zl 16 per 1 m^3 free on Poland's state boundary. To this should be added the relatively low costs of conveyance through high-pressurized mains, as well as the much higher distribution costs in supplying relatively small amounts of gas to dwellings in housing estates.

The final cost of gas supplied to a dwelling exceeds Zl 22 for 1 m3. The subsidy which permits keeping the user's price at Zl 2.70 seems to be grossly exaggerated. Ultimately, this subsidy burdens all society, apart from being a totally superfluous incentive for wasting gas.

This estimate does not include what are called indirect costs, which arise from Polish firms' building gas pipelines abroad and which are estimated at more than Zl 10 per 1 m^3.

Natural gas is undoubtedly a highly productive and environment-friendly kind of fuel. However, it is too expensive and thus calls for great economy in consumption. Besides, it is very valuable raw materials for the chemical industry, especially for producing indispensable nitric fertilizers.

Economic effectiveness of innovation in the energy industry depends on price relations between products such as boilers, turbines, mills, pumps, heat exchangers, etc., on one hand, and fuels on the other. The following figures are very instructive in this respect.

In 1973, unit investment price of building a coal lignite-fired plant was Zl 5,050 per 1 kWh. By 1983, this cost rose ten times reaching Zl 53,070. During the same period, mean price of the fuel burnt in power-generating plants rose from Zl 332 to Zl 2,010 per ton, or only six times. In this new pattern of price relations, it is virtually impossible to economically justify any call for new energy-saving facilities, for replacing old inefficient plant (say, boilers) with modern and highly productive one, to switch over to combined heat-electricity energy use in industrial production [word indistinct].

Under the centralistic command-type decision-making system, these inadequate price relations were, in keeping with Planning Commission recommendations, partly rectified by applying transaction prices of fuels. But now that investment, and especially modernization, decisions have been decentralized, enterprises in their effectiveness estimates will not agree to apply fuel prices other than those they actually pay to suppliers, which are roughly twice as high.

If the reform's generally correct rules are to be enacted in the energy area, then the system of prices and tariffs domestic users pay for fuels and energy as well as prices of basic energy system elements should be put in order. This matter must not be deferred to an indefinite future because decisions concerning inevitable changes in industrial structure and production technologies with a view to cutting energy consumption levels must be made in the nearest months. Unless quick action is taken to ensure efficient energy production, conveyance, and especially consumption, acute energy shortages may set in as soon as the early 1990s.

Society hardly realizes that the national economy is facing an impending energy crisis. Poles are still living with the myth about "inexhaustible" coal resources which are allegedly to suffice not only for covering the economy's needs but also as a source of continuous inflow of foreign exchange from coal exports.

Recent years brought a deceptive calm, which Poland "owes" to its economic crisis and industry's reduced energy demand for fuels. Three milk winters in a row also helped allay the situation.

A first warning signal of imminent difficulties came in mid-December last year, when Polish power plants were suddenly short of some 50 MW power. According to forecasts drawn up by Poland's most competent bodies concerned with the energy problem (the Mining and Energy Ministry, the Central Energy Authority GIGE), many mines will have to decrease their coal output after 1990 because deposits which can be worked with current mining technologies will start depleting by then. Such extraction capacity decreases may be forestalled if new mines are built or existing shafts are deepened.

In order to keep up current extraction capacity levels, Poland would have to build, within the next 45 years, 180 new shafts of a total length of some 175 km and to deepen existing ones by some 52 km. These plans may misfire, not only due to financial difficulties but also because of a not unlikely total environmental degradation of mining areas, as well as due to shortages of materials necessary to build, and operate, deep-shaft mines. Equally difficult, though certainly less detrimental for environment, will be the building of nuclear power and heat plants. But this in turn depends on holding foreign exchange enough for buying the necessary plant and, subsequently, the increasingly expensive fission materials (nuclear reactor "fuel").

Even if Poland succeeds in developing new energy sources, i.e., solar energy, small hydroelectric plants or biomass-using installations, this will be no remedy for Poland's ailing energy system by the end of this century. These alternative energy sources may have their heyday in 40-50 years from now, by which time conventional fuels will have become 4-5 more expensive than now. While streamlining energy consumption is certainly the most sensible road to go, this by itself will not enable Poland to resolve its energy problem. The energy balance may change in any significant way only by switching Poland's industries over to less energy-intensive technologies. But this will take decades. So, any action conducive to improving Poland's energy balance must be hailed. Economic incentives are certainly the best of all devices, but, to make them work, it is urgently necessary to review and immediately improve the system of prices, tariffs and costs which is a fundamental element of Poland's energy policies.

It is a pity that regulating energy prices and tariffs was not pondered as a necessity on the most recent occasion of increasing staple goods prices.

CSO: 2600/1071

REFORM FAULTED FOR FAILING TO BOOST INNOVATION IN INDUSTRY

Warsaw PRZEGLAD TECHNICZNY in Polish No 18, 29 Apr 84 pp 14-15

[Article by Zofia Borowska-Kwasik and Witold Kasperkiewicz: "Which Way to Innovation?"]

[Excerpts] The principles of the reform and the financial regulations outlined in the official documents introducing progressive changes in the functioning of the Polish economy do not treat separately the problems of innovation. The architects of the reform proceeded from the assumption that the demand for innovation in enterprises and in the economy as a whole is determined by fundamental systemic solutions such as the division of powers between the various decision-making bodies, the horizontal ties between various units, organizational structures, the requirements of self-financing, the nature of the pricing system, etc. An analysis of the projected target shape of economic mechanisms leads to the conclusion that the most important condition of socially desirable activity of enterprises and groups of enterprises with regard to innovation is the pressure on efficiency and the requirement of efficiency.

This is the correct conclusion, provided that the situation in the home market is normalized in the future. The present state of the market and the still enormous inflationary overhang do not encourage the introduction of genuinely new products and processes. A similar disincentive to innovation is the existence of monopolistic structures in trade and commerce and the situation in foreign trade (no competition from imported goods).

On the basis of the results of empirical studies carried out in 1983 in 49 enterprises (representing mainly the light, chemical, engineering and food industries), it is possible to attempt an appraisal of the new economic mechanism from the point of view of its influence on the enterprises' tendency to introduce new solutions. This leads to the justified question whether this mechanism contributed in any way to the overcoming of the traditional reluctance of enterprises to introduce new products and processes, inherited from the old centralized system of management.

In appraising the efficacy of the reform in the domain of innovation, we took into account the fact that the new mechanisms have only been in force for 2 years and the extremely unfavorable conditions for introducing new designs, including the inflated market and the enormous foreign debt.

1. Of the enterprises examined, 89.6 percent engaged in research and development activities. Most of the projects (81.4 percent of enterprises) concerned new products and processes, while 55.8 percent of enterprises sought changes in organizational solutions. Over 50 percent of the projects were necessitated by supply shortages.

The search for change in enterprises was subordinated to the following goals:

lowering of the cost of materials	83% of enterprises
finding replacement for imports	59%
better working conditions	43.7%
better product quality	43.7%
growth of production for the home market	30.2%
growth of export	29.1%
lowering of labor costs	25%

The list of anticipated benefits presented above quite faithfully reproduces the hierarchy of difficulties experienced by Polish enterprises. These are mainly due to such bottlenecks as the supply of materials, especially imported ones. On the other hand, the desire to increase production for the domestic market and for export is displayed by a pretty small proportion of enterprises. It is also significant that only 25 percent of enterprises are embarking on projects designed to cut the cost of labor, which might appear paradoxical in view of the demand for labor reported by enterprises. It appears that the main reasons for the lack of interest in cutting the cost of labor are the following:

—labor is still relatively less expensive than fixed assets;

--the taxation of profit based on steep progression and the dependence of the taxation rate on profitability calculated on the basis of processing costs favor a growth of production through increasing labor-intensiveness rather than the introduction of new capital-intensive technological solutions;

—harsh import restrictions make it impossible to replace old and depreciated machines with new ones, especially ones imported from the West.

2. An important role is played in innovation by research and development units. According to the studies, 45 percent of the enterprises examined had their own R&D units, mostly laboratories and design offices. The latter predominate in enterprises producing capital equipment, while laboratories are more frequently encountered in consumer-oriented enterprises. It is noteworthy that among the enterprises which do not now have their own R&D facilities, 24 percent disbanded them some time ago. The main reasons for the move include the low efficiency of these units, organizational changes and decisions taken at a higher level. The economic reasons for the disbandment of factory R&D operations were the financial regulations governing the financing of this kind of activity. The R&D outlays

count toward production costs and affect the company's profits. The absence of a factory R&D unit does not mean the abandonment of all activity in this respect. It merely indicates the desire to have the R&D work done outside the enterprise so as not to lay a burden on its profits.

The decisive predominance of small changes and improvements in products and processes is a logical consequence of the elimination of R&D activities from enterprises. Studies have shown that bigger changes require the involvement of specialized R&D establishments. We have found no instances of enterprises being forced by superior institutions to purchase technology from R&D units.

3. From the point of view of stimulating the demand for changes at enterprise level, a big role is played by the system of financing innovation-related projects. Big expectations are connected with the operation of the Fund for Technological and Economic Progress [FTEP] made up of surcharges on enterprise costs and designed to finance R&D and application (without investments). Those enterprises which do not have this kind of fund include spending on innovation directly in their operating costs.

In 1983, all the enterprises examined which conducted R&D activity of their own had their own Funds for Technological and Economic Progress and all of them contributed a half of these funds to the Central Fund which is indispensable for financing the continuation of work on centrally controlled research projects. The proportion of enterprises which tapped their own FTEP funds in 1983 is alarmingly low and amounts to 46.6 percent. The reasons for the enterprises' reluctance to spend these funds are basically quite simple. They follow, first of all, from the general strategy pursued by enterprises, which consists in avoiding risky investments and preferring small improvements, and second, from the lack of proposed new solutions that would be sufficiently interesting for enterprises, which is the result of the passive attitude of R&D establishments.

Only one enterprise was using subsidies for innovative activity, while four enterprises qualified for income tax concessions on account of the application of R&D undertakings. The deductions amounted to between 20 percent and 30 percent of the cost of the R&D activity. The fact that such a small number of enterprises qualify for subsidies and income tax concessions suggests that these opportunities are not sufficiently attractive for the enterprises. This means that the enterprises prefer other methods of improving their economic results than the search for new products and processes. Given the numerous options of obtaining tax concessions available in 1983, the enterprises selected the ones which they could exploit with the least effort.

4. A great majority of the enterprises surveyed experienced shortages of production supplies in 1983. The changes they were introducing in production processes were mainly forced by supply shortages. Often, it was change for the worse as the substitute materials or parts were of a lower quality than the ones used previously. On the other hand, the growth of the prices of production supplies had only a very small impact on technology changes. Only 18.9 percent of enterprises switched to less expensive materials when the prices went up, whereas only 11.4 percent of enterprises started the production of new or, as was more frequently the case, modernized products.

5. The most dangerous phenomenon with regard to the development of enterprises at present is the growing depreciation of capital equipment as a result of insufficient overhauls and replacement purchases. The scope of this danger differs from one enterprise to another. Among the enterprises investing in the 1970's the danger is quite real because of the shortage of hard currency for the replacement and repairs of machines imported from the West. Of course, older capital equipment also depreciates. The aging of machinery results in bigger downtime and affects productivity and product quality. The problem of disinvestment does not receive adequate attention in the R&D activities undertaken by enterprises. Most of the ventures concern substitute materials to replace imported ones while there are very few projects concerning components and parts of machines. As we mentioned before, only 25 percent of the enterprises examined sought change in technology in order to reduce the labor-intensiveness of their products; this is a kind of activity that requires advanced capital equipment.

6. The central research projects are an important instrument of shaping the innovation-related activity of enterprises in a direction that would be desirable from the point of view of the whole economy. Some 16.7 percent of the enterprises surveyed were engaged in the implementation of these projects. None of them was forced to do it through administrative pressures. A half of them took up the suggestions of their parent bodies, while the other half did it of their own accord. The low level of involvement of enterprises in the execution of central research projects shows that economic gains for enterprises following from this activity are insufficient. According to the enterprises, the system of incentives for taking up such projects is incommensurate to the enterprise's effort. Besides, enterprises fear that the central research projects may be abused as a loophole for increased administrative interference in their activity. In this situation, it will not be possible to use the central projects on a broader scale as a means of increasing the interest of enterprises in new technology projects of national significance. It can be expected that the embracing of such projects with government orders in 1984 will result in a growth of that interest. The reason why the interest should increase is that the enterprises which carry out government orders enjoy privileges with regard to the availability of raw materials and hard currency to finance the necessary imports.

7. The empirical studies have made it possible to gauge the views of enterprise managers as regards the necessity to introduce changes in products and processes. According to managers, this need is felt strongly by 29.9 percent of enterprises, is rather perceptible in 54.3 percent of enterprises and rather imperceptible in 18.7 percent of enterprises.

According to a majority of managers, the economic reform has increased the possibilities of enterprises with regard to innovation. This was the judgment of 66.2 percent of the persons polled, while 52 percent said the new system was actually encouraging change.

A comparison of these figures with the facts given earlier indicates that the feelings of the executives do not correspond to reality. Therefore, there are no logical grounds for praising the new system as encouraging change.

It can be said that the need to replace imported materials with domestically available ones in order to reach the planned volume of production results in static efficiency, while there are no sufficient stimuli to dynamic efficiency that would manifest itself in the lowering of labor input, improvement of product quality or the launching of new or modernized products. Dynamic efficiency growth is encouraged by domestic competition, consistent observance of the principle of self-financing and parametric character of prices. Although the importance of such factors is emphasized all the time, their practical role remains very limited. This is not only the result of objective obstacles, such as the impossibility of balancing market supply with demand within a short period of time, but also of the lack of consistency in respecting the principle of self-financing (continued acceptance of large-scale subsidizing, imprecise criteria of selection of investment programs), the application of many income and FAZ tax concessions, the imperfect pricing mechanism, which in its present shape does not perform the function of a verifier of production costs and regulator of enterprise profits. Also the high degree of concentration of production, often exceeding the limits of benefits, weakens the incentives to the introduction of changes raising dynamic efficiency.

The studies show that the reform has not released a drive for innovation in enterprises. This is due both to the faulty design of some tools incorporated in the financial system and to discouraging external conditions that are due to the economic crisis. In addition to that, enterprises have been in difficulty to adapt to the new rules of operation introduced by the reform and distorted by the crisis.

It appears that the introduction of more changes to the principles of the reform will not produce a breakthrough as regards the drive of enterprises for innovation until the external conditions return more or less to normal. The too frequent changes of the rules of the game discourage enterprises from engaging in long-range activities and reduce their interest in technological development. In the future, the elimination of the possibilities of attaining easy profits through pricing gimmick and switching of product range, stabilization of systematic rules and of the market should make technological progress the main driving force of efficiency growth in enterprises. The experience of 1984 will show whether this is a feasible opportunity or more like wishful thinking.

CSO: 2600/1071

FIRST QUARTER ENTERPRISE FINANCIAL PERFORMANCE SUMMARIZED

Warsaw ZYCIE GOSPODARCZE in Polish No 24, 10 Jun 84 p 15

[Article by Marek Misiak: "Enterprise Finances in the First Quarter of 1984"]

[Excerpts] Data on financial performance of enterprises are hardly a prominent element of current economic analyses. This cannot be fully explained by the monthly delay in their release, as compared with statistics on overall value of production and output in physical units. After all, preliminary estimates can be compiled on time. The point is, however, that despite 2 years of reform, an economic approach to analysis (transcending the data on overall value and physical units) has yet to become a custom.

The first-quarter financial indicators show that trends recorded last year have continued in 1984. This is reflected in the rise of cost-to-sales ratio at socialized enterprises from 90.1 percent in the first quarter of 1983 to 90.5 percent in the same period of this year. And the profitability indicator (ratio of the financial result, or the balance of profits and losses, to enterprise costs) dropped from 8.9 percent to 8.2 percent.

The growing ratio of costs to the value of sales testifies to a slower increase in the financial accumulation (or the difference between the value of sales and enterprise costs), compared to the sales value. This is confirmed by data presented in the GUS table, showing that the value of sales rose 12 percent in first-quarter on first-quarter terms, against the corresponding increase in financial accumulation of only 7.5 percent.

The main culprit was industry (generating more than 75 percent of the financial accumulation) where the respective increases were 17.5 percent and 7.4 percent.

This was caused by the slower growth, or even decline, in the financial accumulation at major branches of the sector of industry. Coming to the fore here is the spirits industry. [Alcoholic drinks distributor] Polmos is Poland's largest enterprise in terms of the value of sales (Zl 444.5 billion last year) and financial accumulation (Zl 388.5 billion in 1983), which is understandable in view of price policy pursued in the area. In the first quarter of 1984, Polmos' financial accumulation fell 8.8 percent from the corresponding period of 1983, which reflected lower demand for alcoholic drinks--at higher prices (raised last year) and with other sales restrictions.

Financial Results of Socialized Enterprises in the First Quarter of 1984
a/ 1st quarter of 1983 b/ 1st quarter of 1984

Specification		Sales[1]	Financial accumulation and its distribution					Financial result[2]	Profit taxation		Cost coefficient[3]	Profitability[4]
			Total	Taxation Total	Taxation Sales Tax	Budgetary Grants Total	Budgetary Grants Subsidies		Income tax	PFAZ		
		in billion Zl									in %	
1		2	3	4	5	6	7	8	9	10	11	12
Socialized enterprises, total[5]	a/	4,297.7	426.5	272.2	228.0	190.4	143.2	344.7	206.6	5.27	90.1	8.9
	b/	4,807.2	458.7	335.3	291.4	238.7	174.8	357.3	197.1	13.30	90.5	8.2
of which:												
Industry	a/	1,894.9	321.3	190.1	188.1	90.5	83.0	221.7	141.0	2.97	82.9	14.1
	b/	2,219.5	345.3	221.6	220.1	115.9	110.5	239.6	130.6	9.76	84.4	12.8
of which:												
coal	a/	101.6	-24.7	0.0	0.0	22.2	18.6	-2.5	0.0	-	124.2	-2.0
	b/	128.2	-30.2	0.0	0.0	40.5	10.3	10.3	0.0	-	123.4	6.5
fuels	a/	113.9	35.2	18.9	18.9	1.6	1.6	17.9	13.8	0.02	69.1	22.8
	b/	128.8	42.7	29.5	29.0	1.3	-	15.5	10.0	0.27	66.8	16.8
steel	a/	120.6	6.1	0.3	0.3	3.4	3.3	9.2	5.3	0.05	94.8	8.0
	b/	131.7	1.9	0.4	0.4	4.1	4.1	5.7	3.0	1.02	98.3	4.4
machinery	a/	138.5	25.0	1.4	1.4	0.5	-	24.0	13.8	0.40	82.1	21.1
	b/	159.2	28.1	1.7	1.7	0.7	0.0	27.1	14.8	1.50	82.5	20.6
precision engineering	a/	20.2	4.8	0.3	0.3	0.0	-	4.5	2.9	0.07	76.6	29.0
	b/	24.1	5.3	0.4	0.4	0.1	-	5.0	2.9	0.33	78.0	26.8
means of transport	a/	139.9	33.2	10.5	10.4	0.8	0.3	23.4	14.6	0.95	76.6	21.9
	b/	160.2	37.7	13.7	13.7	1.7	-	25.5	14.0	2.05	76.9	20.7
chemical	a/	167.6	26.3	4.7	4.5	4.4	4.1	25.9	17.3	0.25	84.4	18.3
	b/	193.6	26.9	7.8	7.7	5.9	5.0	25.0	14.9	0.65	86.1	15.0
construction materials	a/	51.3	7.2	1.4	0.7	0.9	0.8	6.8	3.9	0.11	85.9	15.3
	b/	58.2	6.6	1.3	0.7	1.0	0.9	6.3	3.7	0.38	88.6	12.2

1		2	3	4	5	6	7	8	9	10	11	12
textile	a/	113.9	26.3	14.4	14.3	0.2	0.2	14.0	8.8	0.10	75.2	16.4
	b/	142.2	37.5	20.9	20.8	0.2	0.2	16.8	9.6	0.26	73.6	16.0
garments	a/	44.8	6.0	0.2	0.2	0.0	0.0	5.8	3.2	0.09	86.7	14.9
	b/	55.8	8.1	0.2	0.2	0.1	0.0	7.9	4.0	0.15	85.6	16.6
food-processing	a/	442.7	102.7	121.5	120.8	51.6	50.8	32.8	21.8	0.20	76.2	9.7
	b/	494.6	37.8	113.9	113.9	54.7	54.5	28.6	16.8	0.85	82.0	7.0
Construction	a/	265.2	28.2	0.1	0.1	0.2	0.0	26.2	13.8	0.79	89.2	11.9
	b/	288.5	25.9	0.2	0.2	0.3	0.0	35.7	17.4	0.79	87.4	14.2
Rail transport	a/	39.5	-9.1	0.0	0.0	18.8	18.8	9.7	3.9	0.01	125.3	19.6
	b/	52.0	-22.5	0.0	0.0	12.4	12.4	-10.0	0.1	0.13	144.6	-13.3
Road transport	a/	37.8	5.4	0.0	0.0	0.6	0.6	5.9	2.7	0.08	96.6	18.1
	b/	64.1	3.9	0.0	0.0	3.3	3.3	7.1	3.1	0.46	94.3	11.7
Domestic retail trade	a/	979.9	25.6	5.8	2.9	3.0	2.0	22.8	10.3	0.36	97.2	2.4
	b/	1,059.6	29.5	6.8	2.8	3.0	2.6	25.8	12.6	0.39	97.4	2.5

1/ at market prices [ceny realizacji]
2/ balance of losses and profits
3/ ratio of total enterprise costs ["koszty wlasne"] to sales
4/ ratio of the financial result to total enterprise costs
5/ without PGR state farms, KSP farm cooperatives and (in 1983) farm circles' cooperatives [SKR]

Source: Central Statistical Office (GUS)

Next to the spirits industry, the group of sizeable contributors to the overall financial accumulation includes fuels, means of transportation, electric/electronics and branches of the light industry. Among them, the refinery and electronic industries exerted a positive influence upon accumulation dynamics in the first quarter. Their financial accumulation in that period amounted to, respectively, Zl 34.7 billion and Zl 10.9 billion, rising by 32.5 percent and 45.8 percent. In the remaining branches in the group, the dynamics of accumulation was close to, and sometimes lower than, the growth-rate of production.

The slow-down in financial-accumulation dynamics in industry was also caused by the growth in so-called negative financial accumulation in coal, milk and milling industries. The figure for the first of them rose by 24.4 percent from the first quarter of 1983 to reach minus Zl 29.1 billion.

In the milk and milling industries, the negative financial accumulation amounted to Zl 24.8 billion and Zl 9.6 billion, respectively, rising by 25.6 percent and 7.6 percent. The increase in the prices of basic foodstuffs merely reduced the amount of subsidies granted these two branches (to a greater degree in the former and a lesser degree in the latter), but they still remain in the red.

In the meat industry, the negative financial accumulation--which showed a tendency to contract already in 1983--further dropped off in the first quarter of 1984 to minus 3.3 billion, representing a 80.9 percent decline compared to the same period of 1983. It might be encouraging, were it not for poor progress in procurement, especially of hogs.

State-budget grants, the main item of which are subsidies, amounted to Zl 174.8 billion in January-March, or 22.1 percent more than in the first quarter of 1983. The largest funding went to the coal industry (Zl 40.5 billion, increase by 35.8 percent), the milk industry (Zl 26.8 billion, increase by 18.6 percent), and the milling industry (Zl 13.1 billion, increase by 21.7 percent).

Subsidies to the meat industry went down by 41.1 percent to Zl 5.8 billion.

The remaining sectors of the national economy, generated among themselves some 25 percent of the overall financial accumulation. The main contributors were: construction 7.8 percent, domestic trade in consumer goods 6.4 percent, domestic trade in producer goods 4.7 percent, and foreign trade (2.2 percent).

In construction, the first-quarter accumulation of Zl 35.9 billion represented a 27.5-percent increase on the corresponding figure of last year. The biggest share was contributed by production/service segment of the construction sector (Zl 14.2 billion), where the share of enterprise costs to sales value dropped from 86.5 percent to 85.4 percent. Can this be interpreted as a sign of efficiency improvement in construction. The problem, it seems, needs to be analyzed in greater detail. In particular, it is important that the structure of related investment spending be learned. What counts on the macroeconomic level is not only the sum total of financial accumulation generated in construction, but also its efficiency, as reflected, e.g., in the shortening of project gestation cycles.

A negative impact upon financial accumulation is exerted by transport, recording minus Zl 14.3 billion in January-March 1984, against [minus] Zl 2.3 billion a year earlier. This was mainly the result of the rail segment's performance—negative financial accumulation of Zl 22.5 billion (Zl 9.1 billion a year earlier) and costs to sales ratio of 144.6 percent (sic), against 125.3 percent in the first quarter of 1983. State budget subsidies to rail transport in January-March 1984 amounted to Zl 12.4 billion.

Other sectors contributing to negative accumulation are: municipal services (increase in the negative value by 26.2 percent, in first-quarter to first-quarter terms), housing management and nonmaterial municipal services (minus Zl 19.7 billion, or increase by 19.7 percent). Budgetary subsidies to these sectors amounted to Zl 37.6 billion in the first quarter of 1984, against Zl 31.8 billion a year earlier.

The first-quarter financial result of enterprises (or financial accumulation less contributions to the budget plus budgetary grants) reached Zl 357.3 billion, or Zl 101.4 billion less than the financial accumulation.

Contributions to the overall financial-result figure were as follows: Zl 239.6 billion from industry (8.1 percent more than a year earlier), Zl 35.7 billion from construction (26.6 percent more), Zl 7.0 billion from transport and communications (70.4 percent less), Zl 25.8 billion from domestic consumer-market trade (13.2 percent more), Zl 17.6 billion from foreign trade (15.0 percent more) and Zl 12.0 billion from domestic trade in producer goods (3.6 percent less).

The state budget received from the whole body of socialized enterprises Zl 291.4 billion in sales tax, Zl 197.1 billion in income tax, Zl 71.0 billion in payroll tax, Zl 27.6 billion in real-estate tax, and Zl 13.3 billion in FAZ contributions. Together, this makes Zl 600.4 billion, or 17.9 percent more than in the first quarter of 1983.

In breakdown by enterprise, the already-mentioned positive financial result of Zl 357.3 billion comes as a balance of Zl 430.3 billion worth of profit generated by 14,200 enterprises under [GUS] review, and Zl 73 billion worth of losses made by 84 enterprises.

In industry, out of the total of 4,590 enterprises under review, losses were recorded in 130 ones (coal industry enterprises excluded). In 46 enterprises, the negative financial result stood at above 5 percent, and in 84 ones it was in the 0-5 percent range. The enterprises belonged to the following branches: food processing (79), construction materials (11), metals and wood (6 each), steel and chemicals (6 each), fuels (3), means of transport, electronics/electric, and fine ceramics (2 each), machinery, textiles, garments and leather (1 each).

As far as the positive profitability indicator is concerned, the inter-enterprise spread was quite substantial. In industry, 524 enterprises had profitability indicator (ratio of profit to enterprise costs) between 0 and 5 percent, 903 enterprises between 5 and 10 percent, 994 enterprises between 10 and 15 percent, 778 enterprises between 15 and 20 percent, 452 enterprises between 20 and 25 percent, 306 enterprises between 25 and 30 percent, 378 enterprises between 30 and 50 percent, and 109 above 50 percent.

Most enterprises with above-50 percent profitability index were in the following industries: machinery (29), precision engineering (13), chemicals (12), means of transport (9), metals (7) and electric and electronic (7 each).

In the sector of construction, there were 71 loss-making enterprises in the studied group of 1,850 enterprises. Among those in the black, 264 ones had profitability ratio between 0 and 5 percent, 382 ones between 5 and 10 percent, 294 ones between 10 and 15 percent, 239 between 15 and 20 percent, 174 ones between 20 and 25 percent, 124 between 25 and 30 percent, 220 ones between 20 and 50 percent, and 76 above 50 percent.

Compared to industry and construction, the proportion of loss-making enterprises was higher in the remaining sectors (with the exception of foreign trade where it stood at a level close to that in industry). Such enterprises accounted for 5.7 percent of the total in housing management and nonmaterial municipal services, 9.9 percent in municipal services, and 21 percent in transport.

The high profitability, differentials notwithstanding, socialized enterprises' first-quarter income tax of Zl 197.1 billion was 4.6 percent below the corresponding figure for 1983. A major factor behind this seems to be the new formula of income tax (linear in place of progressive) which, in contrast to the previous one does not discourage enterprises from maximizing the profitability index.

CSO: 2600/1071

ECONOMIC LEVERS PROMOTING TECHNOLOGICAL INNOVATION DETAILED

Warsaw ZYCIE GOSPODARCZE in Polish No 20, 13 May 84 p 8

[Article by Jerzy Teodorowicz: "Does the Reform Force Enterprises To Innovate?"]

[Text] The Minister for Economic Reform [Wladyslaw Baka] has recently endorsed a study called "Technological Progress Under the Reform," which presents the state of affairs at this moment, i.e., against the backdrop of the legislation which took effect on 1 January this year.

As the economy is bogged in a deep disequilibrium, incentives for modernizing products, cutting production cost or improving product quality, reliability or design are lacking. Legislators drawing up the 21 December 1983 bill on modifying some laws introducing the economic reform were aware of this, it is pointed out in the study. Accordingly, in one article amending the law on prices they authorized the Council of Ministers to order temporary bans on price increases or temporary maximum growth rates for contractual prices; the underlying idea of this is to force enterprises to cut costs via innovation.

Other incentives for enterprises to seek innovation are furnished by the new system of income tax rebates. In keeping with a 27 December 1983 Council of Ministers ordinance, such rebates may be granted to enterprises which engage in investment ventures designed to allay Poland's dependence on imported products or services, to use post-production wastes, scrap or substandard materials for production; to enterprises engaged in modernizing ventures undertaken in order to cut fuel, energy and material consumption per unit product; and to enterprises applying Polish inventions as well as any innovative ideas which help enterprises achieve the above-mentioned goals. All such income tax rebates may amount to 20 percent of the income tax an enterprise has to pay.

Innovators and inventors were gratified to see the 31 December 1983 Council of Ministers Order 203, on financial incentives for enterprises and research establishments engaging in joint ventures for starting and conducting lightweight and short-batch production lines, to take effect. Profits from such joint ventures are now exempt from income tax for three years. If products turned out in effect of such joint ventures are exported, the organizations involved will be allowed to retain 50 percent of their export revenue for their own purposes.

Encouragement for enterprises to embark on investment projects can further be perceived in regulations concerning depreciation charges. The modifications introduced in the 21 December 1983 law to the 26 February 1982 law on enterprise finances, include the rule that enterprises are allowed to keep all depreciation charges on any plant which was installed after 1 January 1984 and financed by these enterprises entirely from their own funds.

Further possibilities for enterprises to get innovative ventures under way are furnished by the 26 January 1984 law authorizing enterprises to apply their own wage systems. By lifting all constraints on wage differentials among occupational groups, it enables enterprises to reward employees in proportion to individual work input and quality; this, in conjunction with the system of PFAZ [Labor Redeployment Fund] charges, enables enterprises to improve their employment structures and goads them into seeking labor-saving production techniques.

The reform-installed set of management instruments also includes what are called negative incentives. Costs and losses classed as unwarranted in income tax determination are one category of such negative incentives. In its 27 December 1983 ordinance, the Council of Ministers ordered that if an economic organization incurs such costs or losses due to mismanagement, then its income tax rate should be increased. The category of unwarranted costs comprises, among other things, half the cost of repairing defective products, services or constructions which users will reveal. It also includes repair costs of product etc., under producer-guaranty obligations. Unwarranted losses comprise, among other things, contractual and other penalties and indemnities for substandard quality of products, services or works, or for violating environment-protection regulations. Proper implementation of innovative techniques is assumed to help enterprises to cushion the impact of such costs and losses.

An enterprise has its chief source of financing technological change in its fund for technological and economic progress to be created from surcharges upon its operation costs. The 26 February 1982 law makes such a fund mandatory for industrial, building, transportation, communications, and prospecting enterprises, as well as for some others which are to be named by parent bodies in consultation with the finance minister and with the top body coordinating scientific and technological progress.

Enterprises may use only part of the technological and economic progress fund for their own needs. The remainder, which is specified in the National Socio-economic Plan, has to be transferred to a Central Fund for Technological and Economic Progress [CFTEP]. Proportions at which this money is distributed between the enterprise and the CFPTE follow from annual national economic plans. As in 1982 and 1983, this year enterprises have to transfer half of their own funds to the CFTEP.

Revenue from sales of capital assets bought or made in the course of conducting research ventures financed from TEP funds (less the selling cost) has to be returned to these funds. They may further be beefed up with money from other enterprise funds, say in cases of joint ventures.

Management of TPE fund resources is defined in detail in a 28 June 1982 Council of Ministers ordinance concerning detailed financing rules for enterprises. This ordinance authorizes enterprises to use these funds for financing operations of R&D offices, design offices, technical information centers and other research bureaus named in enterprise statutes, but only above the revenue they get from selling their services to outside buyers; for financing R&D projects conducted by departments, sections and other units operating inside a given enterprise but not specifically named in its statutes as R&D bodies; for financing design works, R&D services bought from other enterprises, licenses, patents and other innovations or designs; for financing standardization research; for preparation and evaluation of innovative proposals; for paying all or part of costs of testing proposed inventions when these projects prove inadequate or when such costs outweigh benefits; and for financing innovative ventures undertaken jointly with other enterprises.

If an enterprise finds its own technological and economic progress fund is too small for financing all these undertakings, it may finance them from its development fund.

An enterprise may beef up its fiannces with subsidies received from centrally-managed R&D funds (including the CFTPE).

Enterprises which are not obliged by law to create their own technological and economic progress funds count their expenditure on innovation directly as operational costs.

CSO: 2600/1070

'GUS' RELEASES 1983 POPULATION STATISTICS

Warsaw ZYCIE GOSPODARCZE in Polish No 21, 20 May 84 p 4

[Text] Central Statistical Office [GUS] data are that, on 31 December 1983, Poland's population was 36,745,000, of whom 21,917,000 lived in cities and 14,828,000 in the countryside.

The 1982 real population growth was 337,000, the 1983 one 346,000. This means Poland's population increased by 0.95 percent within 1 year. This big rise is attributed to high natural increase.

Population surged primarily in urban areas, where it grew by 326,000. Rural population, consistently falling in the past, has been increasing for the past 2 years, too. In 1982 it increased by 11,000, and last year by 21,000. This was due both to falling village-to-town migration and to rising natural increase.

New marriages fell by some 10,000 compared to the 1982 level, reaching 306,000 last year.

The live births figure surged in 1983 to a level last recorded in 1959, reaching 721,000, which was 19,000 more than in 1982. Deaths also increased by some 14,000 compared to the 1982 rate, reaching 349,000. Natural increase, i.e., the difference between births and deaths, was 372,000, or slightly more than in the preceding year. Remarkably, infant mortality again fell from 20.4 per 1,000 live births in 1982 to 19.3 last year.

As for the 1983 age structure, there were 10,737,000 people in the pre-working age class, 21,663,000 at working age, and 4,345,000 at retirement age. This yields a dependency ratio of 70 to 100 (of nonworking-to working-age population). Average employment last year was 17,034,000, which was 39,000 more than in 1982, with the [word indistinct] having 39,000 fewer and the private sector 78,000 more employees that in the preceding year. After the employment figure slumped in 1982, last year it stabilized at a lower level than before.

This net employment decrease in the socialized sector is due to a fall in number of labor contracts by some 11,000, and of commission agents or persons working on cottage-industry contracts--by 14,000 and 13,000, respectively.

The private sector's rising employment figure was due primarily to a non-agricultural employment increase of some 75,000, of which employment in the crafts alone increased by some 54,000. Agricultural employment (in private farms) was at about the same level as in the preceding year.

Increments of potential labor resources were in recent years clearly smaller in Poland. Whereas in 1971-1975 labor increments amounted to more than 1.6 million, and to 1.2 million in the subsequent five-year period, in the current five-year period this increment is going to fall by one half, i.e., to some 610,000 people at working age. It is going to fall still more in the latter half of this decade to a mere 362,000, or some 72,000 on average yearly, which is one-fifth of the 1975 level.

Employment in the socialized sector averaged last year 11,563,000, stabilizing at a level close to that recorded in 1982, when a sharp fall was recorded (by 453,000).

In the sphere of material production, employment fell by 80,000 compared to 1982 (by 46,000 in industry, 20,000 in construction, 28,000 in agriculture). In the nonmaterial sphere, it rose by 69,000 (by 40,000 in education, and by 22,000 in the health and welfare sector).

Preliminary GUS estimates of labor mobility indicate that it generally fell compared to the 1982 level, when measured in terms of new work contracts vs. contract terminations. The new work contracts coefficient fell from 20.1 to 19.2, and that of contract terminations from 20.1 to 18.0. As for motivations behind resignation, retirement distinctly fell (from 389,000 to 98,000); so did, although to a lesser degree, disability pension grants (from 167,000 to 136,000). But the number of women taking child-care leaves went up (to 878,000).

CSO: 2600/1070

MODERNIZATION PROGRAM FOR METALLURGICAL INDUSTRIES OUTLINED

Warsaw ZYCIE GOSPODARCZE in Polish No 21, 20 May 84 p 7

[Article by Krzysztof Fronczak: "Metallurgical Industries: A Retrial"]

[Text] In a festive mood of the Metallurgical Worker's Day (May 10), the Metallurgy and Engineering Ministry presented newsmen with details of a three-day-old government program on the modernization of that sector of the economy in the years 1984-1992. For reasons of its scope, costs, and very short period planned for implementation, the program is without precedent in the recent history of Polish metallurgical industries. Its objective is to make up for the existing delays so as to meet the challenges facing the economy at the turn of the 20th century.

The decade of the 1970s, it was said at the press conference, brought about increased demand for metallurgical products, which the industry was not able to satisfy. As assessed by ministerial specialists, the deficit (in terms of steel) stood at 2.8 million tons in 1975. It was only after the construction of two huge electric steelmills at the Nowotko and Zawiercie complexes (1974-1977) and the first stage of the Katowice project (1976) that the economy's requirements were met at the end-of-the-decade's production level of 19.5 million tons. However, the problem of requirements--which should be understood in qualitative as well as quantitative terms--was being solved through a "development strategy oriented at quick quantitative expansion." In consequence, despite huge spending in the 1970s (Zl 232 billion, or 4.4 percent of all spending in the national economy, including Zl 114 billion on the Katowice project alone), no major changes were made in the structure and quality of metallurgical production. This was also a result of investment cutbacks and halting of some projects in the latter half of the 1970s--as part of so-called economic maneuver policy. Delays were not made up for, and economic maneuver policy. Delays were not made up for, and the early 1980s saw the old plant and equipment--which, although originally planned for scrap, was still in operation--gradually fall into pieces.

Today, a host of production facilities are antiquated and consuming excessive inputs of raw materials and energy. Environmental pollution provokes growing public protest. The age of the facilities speaks for itself--the average age of a Polish steel mill stands at 49 years, against 25 years in more industrialized

countries and less than 10 years in Japan. Open-hearth steel accounts for nearly 50 percent of the total output, while in many countries this highly energy- and material-intensive technology is abandoned entirely. The share of continually cast products is below 4 percent in Poland, against 70-80 percent in leading producer countries. Only 5 percent of steel output is subjected to vacuum treatment, and the share of quality-steel products, flat steel, and sections is too small. The worn-out rolling mills produce worse and worse rolled products, which later results in complaints from buyers, such as the motor industry (car body sheets) or household appliances manufacturers. The production of can sheet is still beyond the reach of the industry. Signs of relaxation of technological discipline, and liberalization--or even abandonment--of quality inspection are seen, and their dramatic effects are later signaled by the buyers.

The back-up production (ferroalloys, refractory materials, rolls, accessories, electric-furnace electrodes, scrap) is insufficient, and the state of coke-oven batteries leaves much to be desired. The sorry state of the sector is completed by manpower shortages. Over the past 3 years, more than 20,000 workers, or 10 percent of all employed, left the steelworks subordinated to the Association of Iron and Steel Producers. As a result, much of the capacity is used at half-steam or not at all.

The new program for 1984-1992 is supposed to bring about deep changes in the structure of production and proper quantitative and qualitative level of basic metallurgical output. The Metallurgy Industry calls it a minimum program, since the fully satisfying version (with spending of Zl 1.1 trillion) is virtually unfeasible at present. The minimum--Zl 569.2 billion to be spent in 1984-1990, of which Zl 410.4 billion for the iron/steel, refractory and coking industries, and Zl 157 billion for the nonferrous industries--comes as a result of a compromise between the ministry and the Government Planning Commission, taking into account the raw-material, energy and manpower constraints, and the overall capacity of the national economy, which after all is going to make a huge effort indeed.

Following is a rough presentation of major lines of action inscribed into the program.

Under a November 1983 credit agreement with the Soviet Union, the following projects are to be resumed and completed: a coking plant at the Huta Katowice complex, a section mill at the Huta Pokoj works, and a heat-treatment rail plant at Huta Katowice (worth together Zl 75.6 billion).

A Zl 18 billion pitch-coke battery is to be built at the Zdzieszowice coking plant.

A sub-program on quality-steel processing and improvement in product quality, covering the production of bearing steel and tool steel, expansion of metallurgical production for nuclear power plants and for rail transport, expansion of sheet cold-rolling mill No 2 at the Lenin steel complex [in Nowa Huta] to the capacity of 1 million tons a year, and other items, will absorb Zl 59.4 billion (and altogether Zl 111.3 billion up to 1992).

Spending on the reconstruction and expansion of the Lenin complex is planned at Zl 38.1 billion in 1984-1990 (plus Zl 13.6 billion in the next 2 years).

The reconstruction of the raw-material segment of the sector and a sub-program on the reduction of raw-material and energy content will require an investment of Zl 94.1 billion, of which Zl 30.3 billion will go to the coking industry (including Zl 2 billion for environmental protection).

Scrap-processing facilities are to be modernized and expanded at the cost of Zl 5 billion.

Environment protection (outside the coking industry) is to absorb Zl 23.3 billion in 1984-1990 and further Zl 10 billion in 1991-1992. A specialist hospital for the treatment of burns will be expanded.

Poland's participation in the development of Soviet ore deposits will require spending of the order of Zl 300 billion in 1986-1992 (of which 80 percent is to be spent by 1990).

In the nonferrous segment, modernization and expansion will cost Zl 89.9 billion (plus further Zl 11.9 billion in 1991-1992) in the copper industry, Zl 26.2 billion (plus Zl 6 billion) in the zinc/lead industry; and 41.5 billion in the aluminium industry.

It is understandable that so great a scale of the program goes beyond the capacity of individual metallurgical enterprises. Therefore, the document adopted by the Council of Ministers on 7 May 1984 provides for a number of special measures. For example, the entirety of the sector's depreciation allowances in 1985-1990 will be left at the disposal of the ministry. The Planning Commission Chairman is obligated to see to it that tasks inscribed into the national plans for 1985 and for 1986-1990 are being implemented. By 30 June of this year, the minister of metallurgy and engineering, is to submit to the Council of Ministers a set of proposals concerning the establishment in the iron/steel and nonferrous industries of above-enterprise economic organizations ensuring centralization of financial resources, proper cooperation and rationalization of production. The president of the National Bank of Poland (NBP) may consider, in individual cases, the extension of a grace period for credits drawn in the past by enterprises covered by the program. Steps are to be taken to ensure higher profitability in the sector, with price policy stimulating expansion, modernization, and greater economies.

The program, which the metallurgy people call a minimum, will doubtlessly be a huge financial, physical and social (manpower) burden for the national economy. Remembering the not-so-distant past and unfulfilled hopes, we will be watching with great concern and not without misgivings how the metallurgical industries are going to handle this credit from society and how they are going to repay it.

CSO: 2600/1070

INCREASED FOREIGN TRADE, COOPERATION PLANNED

Bucharest REVISTA ECONOMICA in Romanian No 19, 11 May 84, pp 2-3

[Article by George Marin: "Romania, Active Participant in the World Economic Circuit"]

[Text] As a system of lasting and interdependent economic relationships among national economies created by participation in the international division of labor the world economic circuit is continuously undergoing changes in its basic features as well as in the movement of various component flows under the influence of the deterioration of the world economic situation and as a result of the prolonged state of crisis. It is sufficient to remember, for example, that the share of international trade--the main flow of the circuit--has dropped during the past decade (from 58.9 percent in 1970 to 54.1 percent in 1980) and continues to do so. After the stagnation of 1981 and the 2 percent drop in 1982, the volume of international trade has maintained its level in 1983. The rate of increase in world trade during the past few years has been the lowest of the entire post-war period (estimates from the annual GATT report published in Geneva, in September 1983). These are surely the consequences of the prolongation of the world economic crisis but observed more closely at the reasons for this situation--and even for the prolongation of the crisis--result in great part from the economic policies promoted by some developed countries. Numerous international studies and discussions, including those at the Sixth General Conference of UNCTAD have pointed out the harmful effects of protectionism and neo-protectionism, of excessive interest rates, random price movements, of monopolistic practices and restrictions in the field of technology transfer and imbalances in international payments. All countries, but most of all the developing countries, have felt the effect of these phenomena and many have had to take steps to review and cut back their programs for economic and social development.

A Multidimensional Strategy

Romania--a developing socialist country--has also been affected, to some extent, by the serious situation in international economic life. In order to minimize its effects as much as possible and to do away with some imbalances and contradictions created in Romanian society as a result of the failure to execute provisions and plans completely, the RCP and our socialist state have taken some important steps. As we know, in 1979 at the 12th Congress of the Party, it was decided to take action to ensure as soon as possible, the

achievement of energy independence and the stronger development of a raw materials base, and to reduce dependency on foreign sources in other areas as well. At the December 1982 National Conference of the RCP it was decided to strive to improve quality, to raise the level of technology, and for the achievement of a new quality of life and work. At the same time, on the basis of a realistic awareness of the increasing interdependence between national economies which shows that participation in the international division of labor and in the world exchange of values is an objective need for the social and economic development of all nations and for the progress of mankind, our Party and State have acted with complete responsibility for the active participation of Romania in the world economic circuit.

Reaffirming that Romania is firmly opposed to any restrictions or limitations of international trade, the General Secretary of the Party, the President of the country, Comrade Nicolae Ceausescu, stressed the following in the report presented at the December 1982 National Conference of the RCP: "We consider that under the present circumstances of the economic crisis it is not appropriate to restrict, but to intensify and expand trade as well as collaboration and cooperation in production." On the other hand, considering the universal character of the world economic circuit trade, the Romanian President said: "We do not wish that international relations in the economic sphere be compartmentalized, we do not intend to limit the collaboration between various groups of nations, but on the contrary, we must widen and develop this collaboration because this world economic crisis cannot be overcome except by wide participation of all countries and by stronger economic collaboration, and in other fields as well." (Interview given in June 1983 to the Swedish newspaper AFTONBLADET and the review ETC.)

As a result of the implementation of the programmatic guidelines of the RCP and on the basis of the great accomplishments of the national economy during the years of socialist construction, Romania has intensified its participation on the world economic circuit and has developed trade and collaboration ties with 150 countries (as compared to 98 countries in 1965). Of the total trade, 43.6 percent is with socialist countries (38.3 percent with CEMA members.) The share of trade with developing countries is steadily increasing--from 5 percent in 1965 to 8.2 percent in 1970 and to 26.9 percent in 1981. A significant part of foreign trade is with developed capitalist countries. Romania is constantly basing its ties with all countries on the principle of equality and mutual advantage, on respect for independence and national sovereignty, non-interference in domestic affairs and not using force or threats of force.

Romania's volume of trade has increased sevenfold during 1965-1982, This being the fastest growing index among other indicators of social and economic development.

By ensuring the export of 97 percent of the production of tractors, 61 percent of the production of electric and Diesel locomotives for trunk line's, 30 percent of the production of lathes, 27 percent of the production of passenger cars, as well as the import fuels and raw materials, as well as other products needed in the national economy, foreign trade has become an efficient tool for economic growth, a factor for the better utilization of natural resources and of labor contributing over 30 percent to the creation of the national income. The dynamics of manufactured goods exports has constantly exceeded the dynamics recorded in world trade beginning in the 1966 to 1967 period, since 1975, the share of manufactured products in Romanian exports has been larger than the share of this particular group in world export (in 1981 it was 54.1 percent compared to 50.8 percent). In 1982, highly-processed goods comprised 57 percent of total exports.

Reflecting the continuing increase and diversification of the Romanian economy, the economic and technical cooperation with countries all over the globe contributes almost 30 percent of our country's exports. This figure should be higher by 1985. "The Romanian formula for cooperation", under the most varied forms--such as building industrial or agricultural facilities and accepting payment in products of these facilities or in other products, import of raw materials in exchange for Romanian industrial products, research work carried out at the expense and risk of the Romanian side, providing technical assistance, participation in joint investments or in international consortiums for the exploitation of some natural reources, and setting up joint production and marketing companies--are important means of achieving a mutually profitable cooperation with other countries and for an increasingly active participation in the world economic circuit. This participation is best expressed in the more than 1,400 agreements (conventions, accords) signed since 1965 for deepening cooperation in different fields of activity with different countries in the participation of Romania in executing over 130 economic and social projects in developing countries and in numerous joint companies.

The activities of these joint companies with headquarters in our country or abroad is concentrated in the following principal fields of activity:

	Total	Production	Marketing	Consulting	Banking and Insurance	Transportation
Companies with headquarters in Romania	7	5	1	-	1	-
Companies with headquarters abroad	67	24	31	3	7	2

Romanian presence is steadily growing in other areas of the world economic circuit--transportation, tourism, etc. It is significant that we expect the foreign currency income from international tourism to increase by 68 percent during the present 5-year plan in comparison with the previous 5-year plan.

New Prospects, New Demands

Toward the end of last year, especially after the plenum of the Central Committee of the RCP of 14-15 November 1983 and the adoption of the single national plan for the economic and social development during 1984--steps were taken to improve the quality, technical level, to increase labor productivity as well as economic profitability and efficiency in all areas and the new regulations concerning the salaries of personnel in foreign trade enterprises and in departments authorized to deal in foreign trade, the encouragement given companies and workers to fulfill and surpass production for export will assure a more vigorous development of industry and agriculture, of other branches of the national economy and more intense participation in world trade and stronger growth of the national income.

It is noteworthy that, for the first time in our country or even in the international sphere, a nationwide effort is underway to redesign and modernize products which are presently manufactured, to improve the design of new products and extend the variety of industrial goods by assimilating some high technology products, so that the share of these products on the world level will increase to about 69 percent in 1985, 84.6 percent in 1987, will come close to 95 percent in 1990, while, in this same year, about 2 to 5 percent of all products will be above the world level. In order to reach these goals, starting in 1984 all export products will have to meet international standards, with increased efficiency being ensured. According to the provisions of the 5-Year-Plan, a comparison of 1985 with 1981 will show that 30 percent of the increase in the value of exports was due to the improved structure of exports, and higher utilization of raw materials (over 11 times higher in the machine building industry, 10-12 times in the chemical industry, 5-6 times in light industry).

Reflecting the orientation toward more active participation with increased effectiveness of our country in foreign trade and international economic cooperation, the 1984 plan provides for a 13.8 percent increase in the volume of foreign trade. This increase is based on the priority growth of production meant for export, effective use of funds allotted for imports, and a continued positive trade balance, so that in 1984 the foreign debt should be reduced by at least 25 percent and in short time thereafter it should be completely liquidated.

Obviously, the attainment of such important goals presumes vigorous prospecting for foreign markets, highly effective export-import contracts, diversified marketing, expansion of markets, production of the goods with the varieties and qualities contracted for aiming for the continued increase of the hard currency contribution of export goods, careful management of foreign currency intended for imports by reducing specific consumption of materials, maximum utilization of internal resources, the assimilation of new products and materials, completion of all international economic and technical cooperation undertakings, intensification of negotiations with foreign partners and new initiatives in order to expand and improve international cooperation and collaboration, increasing profitability of the joint companies, ensuring the necessary labor and equipment for the execution, in time and under competitive conditions, of building and assembly projects abroad and the export of designs, technical documentation and technical assistance.

At the same time, it seems necessary to take bold steps toward participation in the international economic flow of licences, patents, know-how, the development of banking services, international tourism, insurance, etc.

As for the orientation of trade and cooperation, our country continues to strive to perfect collaboration with members of CEMA and to perfect the mechanism of this organization in order to improve the efficiency of its activities. At the plenum of the RCP Central Committee in November 1983, the General Secretary of the Party, Comrade Nicolae Ceausescu said that CEMA must become "a body which should provide for the harmonious and balanced development of all socialist countries, for their greater share in world economy, but also for the solution--with their own abilities--of many problems regarding economic-social development, including the problems of energy and raw materials, and those of technology and research." At the same time, Romania is determined to further develop its trade contacts and cooperation in production with all socialist countries, which will comprise 48 precent of the total trade in 1985. Our country is also concentrating on expanding collaboration and cooperation with developing countries, on widening economic ties with developed capitalist countries, in the spirit of peaceful coexistence and mutual advantage.

All these presume an equally active participation in the solution of the great world economic problems with which mankind is concerned, in order to overcome the difficulties of the economic crisis, to end underdevelopment and to build a new international economic order.

According to some forecasts, the volume of world trade could see in 1984 an increase comparable to the average of the years 1973 to 1982, and an even larger increase in 1985. In order to reach a lasting and stable new start for the benefit of all countries, it is imperative--as our country has stated--to take some short term steps to stop the deterioration of the world economic situation, as well as some long term steps for rekindling economic growth. All countries--developed or developing--must participate in the drawing up, adoption, and confirmation of these steps. They should address the elimination of protectionist barriers and commercial discrimination, they should extend and improve proferential trade treatment in favor of developing countries, they should assure a proper ratio between the prices of raw materials and those of industrial products; some international programs should be set up to assist developing countries in the areas of agriuclture, industry, in the training of specialized personnel, in transportation, etc. Modern technology must be made available to developing countries under conditions acceptable to them, funds allotted for their support must be substantially increased, interest rates must be reduced and stabilized at reasonable levels and these countries must be assured of access of international credits under preferred conditions. The problem of their foreign debt must be solved (by cancelling the debts of the least developed countries, by reducing, delaying the payments and rescheduling for a long-term basis the debts of other developing countries); military expenditures must be immediately reduced and the savings should be used to solve economic and social problems in the countries which make these reductions and also to support the accelerated development of the developing countries, etc. These steps could breathe new life into international life and the world economic circuit, they could provide a new balance and stability to the world economy, a climate of peace and security.

1632
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SOCIOECONOMIC DEVELOPMENT IN PAST 40 YEARS

AU271035 Bucharest AGERPRES in English 0728 GMT 27 Jun 84

[AGERPRES headline: "Articles in the Press: 'Romania's National Wealth'"]

[Text] Bucharest AGERPRES 27 June 1984--In its No 25 issue of 1984, "REVISTA ECONOMICA" carries a study contributed by Academician Manea Manescu, professor, who shows inter alia:

In the 4 decades elapsed since the revolution of social and national liberation, human resources, a decisive component of national wealth, have been steadily developed both quantitatively and qualitatively.

In 1984 the country's population numbered 22.6 million as to 15.7 million in 1945, which accounts for a 44 percent growth. Over the same interval the number of employed population doubled standing at 10.5 million at present. In these 4 decades the number of working personnel grew by 5.8 times. Furthermore, deep-going changes have been wrought in the structure of human resources by territorial units, a dynamic balance having been ensured in each county and locality.

In this period, significant mutations also occurred in point of socio-professional structure and the qualitative development of the potential of the human resources. The working class--the nucleus of human resources--holds a more than 50-percent share in the total active population.

As an outcome of technological development and the continuous rise in professional training productivity stood at 326 thousand lei per person employed in industry in 1983, that is, 10-fold higher than in 1950.

Natural resources are a fundamental component of the national wealth, with the land--the major means of production of agriculture--holding a particular position.

The national programme for the ensurance of certain and stable crops--an extensive project aimed at transforming nature--plays a decisive role in the expansion of the productive potential of the homeland's soil. The country's area of 23.7 million hectares, the 15 million hectares of farmland, of which 10 million hectares of arable land, are basic components of Romania's national wealth.

The organization of agriculture on socialist principles and the permanent development of its technical-material base, the application to production of the latest achievements in agricultural science allowed Romania to turn out in 1983 a farm output seven times larges than in 1945.

Forests are an invaluable asset of the soil. In Socialist Romania there are 6.3 million hectares of wooded land, which account for 27 percent of the country's whole area. An extensive, long-term programme was adopted in Romania which provides for the conservation and balanced development of the country's forests. A decisive part in the dialectics of general progress--and closely related to the assets of the soil--is played by the riches of the subsoil and of the continental shelf. Indicative of Socialist Romania's present extraction potential is the fact that the production of extracted crude amounted to 11.6 million tons in 1983 (over 2.5 times more than in 1945), while the production of methane gas stood at 28 billion cubic metres (over 55 times more than in 1945). Furthermore, coal production amounted to 44.5 million tons in 1983, being 22-fold larger than in 1945.

The third component of the national wealth, the accumulated material resources, represents the vital support of the national economy as a whole, of the growth of the nation's welfare. The fixed assets intended for production are the fundamental component, the nucleus of the whole wealth.

On the basis of the firm application of the policy for the socialist industrialization of the country and of the allocation of an optimal share of the national imcome to the development fund, the country's economic strength has grown steadily reaching 2,400 billion lei worth of fixed assets and being 11 times larger than in 1950. In the same period, productive fixed assets increased 16-fold.

The almost 8 thousand industrial and agro-zootechnical units built in the last two decades have fundamentally changed the socioeconomic look of the country.

Benefitting from modern technologies and a potential of fixed assets worth more than 1,000 billion lei--over 80 percent of which have been commissioned in the last 20 years--the country's industry turned out in 1983 a production of over 1,100 billion lei, that is 97 times larger than that registered in 1945.

All the great achievements scored by the Romanian people in the building of the multilaterally developed socialist society have been underlain by a firm, highly prospective investment policy. In 1983 the volume of investment amounted to more than 230 billion lei, being 30 times larger than in 1950.

Romanian science makes an ever more important contribution to the efficient resolution of all the problems posed by the work of building the multilaterally developed socialist society. Romania boasts at present a powerful scientific research potential--more than 200 thousand highly trained poeple.

At the same time, extensive measures have been taken for the development of public instruction and culture. In 1983 as to 1945 the number of pupils increased by 2.4 times and of students by 4.3 times. At present there are 4.5 million pupils and 174 thousand students in socialist Romania.

In 4 decades alone the Romanian people has managed, on the basis of its own effort, to powerfully develop its national wealth, building a modern and harmoniously structured economy, based on a powerful industry equipped with outfit on a par with world technology, and an intensive, highly efficient agriculture, on the development of science, education and culture on the rise in the whole people's material and spiritual standards.

The homeland's economic strength, expressed by the size of the national income, is now 27 times larger than in 1945. At present the whole national income of 1945 is virtually realized in less than two weeks, while the industrial production of the same year is turned out in less than 4 days.

The ensurance of sustained rates of the accumulation fund provided for a 22-fold rise in the consumption fund which bespeaks the correctness and realistic character of the economic policy promoted by the RCP according to which a high rate of accumulation provides a fundamental material support to the continuous rise in the material and cultural standards of the whole people.

On the basis of the successes scored in economic development, of the dynamic growth of the national wealth, the population's real incomes increased by more than six times in 1983 as against 1950.

In the years of socialist construction extensive housing construction programmes have been implemented and a broad urbanization process has been carried out, which has structurally changed the country's geography. In the last 4 decades, 5.5 million new dwellings were built, more than 80 percent of the country's population having moved in new flats.

As an outcome of the ever better living conditions and higher material and spiritual standards provided each citizen's life expectancy has increased by 28 years in the years of socialism, the average span of life reaching 70 years at present, as against only 42 in the prewar period.

CSO: 2020/98

LAND AMELIORATION PROJECTION DESCRIBED

Soil Research Projects Profitable

AU020952 Bucharest AGERPRES in English 0720 GMT 2 Jul 84

[AGERPRES headline: "Farm Research to Help Raise the Productive Potential of Land"--all quantities are in metric tons]

[Text] Bucharest AGERPRES 2 July 1984--Romanian farm researchers give priority to studies concerning the rise in the productive potential of land, more particularly of eroded, sandy, saline and PODSOL [see last paragraph] soils.

So, for instance, owing to the research conducted at the central experiment station for the reclamation of eroded soils at Perieni, Vaslui County, data were gathered and technologies developed apt to render highly eroded land suitable for farming. The experiments performed at Perieni on 2,500 hectares or so of eroded soil have substantiated and validated a set of soil erosion control measures which have been perseveringly applied for several years leading to the transformation of those areas into productive fields, with crop yields averaging 3,000 kg of wheat and respectively 5,000 kg of grains per hectare. Following those results starting [in] 1982, standard areas have been laid out for erosion-control research totalling about 83,000 hectares of farm land in 32 hilly counties in Romania.

Encouraging results were also scored in the reclamation of sandy and saline soils which extend on more than 700,000 hectares of Romania's land. A set of land improvement methods developed at the research station for crops on sandy soils at Dabuleni, Dolj County, were used to reclaim about 20,000 hectares of the sandy soils at Sadova-Corabia (in the south of Oltenia), following the application of scientific technologies for growing cereals, vegetables, fruit trees and vine, fine crops were obtained: 4,000-6,000 kg per hectare of wheat, 2,300-2,800 kg per hectare of maize, 7,600-12,000 kg per hectare of peaches, 6,400-11,000 kg per hectare of grapes, 10,000 kg per hectare of early potatoes.

Furthermore, the research made on the saline soils at Tunari, near Bucharest, have also led to the improvement of like soils and fine cereals crops were obtained: more than 5,000 kg per hectare of wheat and 7,700 kg per hectare of maize. The improvement of saline soils (some 79,000 hectares) in Dimbovita County provided for annual production growths of 126,000 tons of cereals.

As for the improvement of podsols (i.e. lands which in ordinary conditions yield only 800-1,200 kg of cereals per hectare) the research work carried out at the specialized agricultural research station at Albota, in Arges County, resulted in yields of 4,500 kg of wheat per hectare and 4,800 kg of maize per hectare. Farming units in the same area obtained wheat crops averaging 2,700 kg per hectare in the first year after the application of the set of improvement measures worked out by the researchers at that station.

Irrigation, Drainage Efforts

AU041441 Bucharest Agerpres in English 0945 GMT 4 Jul 84

[Excerpts] Bucharest AGERPRES 4 July 1984--In Romania, climate and soil variations, the alternation of long droughts, periods with spells of abundant rainfall, excess humidity, floods, soil erosion phenomena have led to a diminution of crops and caused large oscillations of the farm output from one year to another. The elimination of the negative effects of these factors is one of the most important ways of increasing the potential of the land stock and, implicitly, agricultural production.

Those are the reasons why, during the last few decades, especially since 1965, as part of its agrarian policy, the Romanian state had adopted a number of measures for the protection, conservation, good management, greater fertility of the land.

In the 1965-1982 interval, more than 43 billion lei were earmarked for irrigation, draining and soil erosion control, and 18 billion for the prevention of flooding and water storage works. At the end of 1982, the land under irrigation totalled 2,380,000 ha [hectares]--a quarter of the country's area and three times more than in 1965, drained areas accounted for 2,576,000 ha--three times as much as in 1965, while erosian control measures had been taken on 1,718,000 ha--an area 7.7 times larger than in 1965.

The [National Agrarian] Programme stipulates that by the end of the current 5-year plan period, the country's farmland should grow to at least 15 million ha, of which the arable should represent 10 million ha. Moreover, the irrigated area is to stand at four million ha in 1990, which is virtually the whole irrigable potential of the country. Until the end of this decade, soil erosion control works will be executed on 3.8 million ha, and will be extended to all of the 5.3 million erodible ha until 1995.

Draining works will be performed on nearly five million ha until 1990, by 1995, soil melioration works will have been virtually completed.

The National Agrarian Programme is, as one may see, an action of unprecedented scope in Romania's history. A grandiose work of transforming nature which will impart a new look to the country and will provide the necessary conditions for achieving an ever more efficient and productive agriculture. Its implementation will turn to good account the rich technico-material base, the labour reserves, the experience and competence of the personnel working in Romanian agriculture, will secure a full and multilateral supply of raw materials necessary to the industry and of farm produce demanded by the population.

For its fulfillment, some 100 billion lei will have to be allocated (over 39 billion more than the total sum invested in agriculture from 1965 to 1982).

Following the carrying out of the national agricultural programme, Romania will become one of the first countries in the world to have managed her entire territory in keeping with the demand of obtaining a higher safe and stable farm output regardless of natural factors.

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NEW COAL MINING UNITS IN JIU VALLEY

AU290911 Bucharest AGERPRES in English 0840 GMT 29 Jun 84

[Text] Bucharest AGERPRES 29 June 1984--The coalfield in the Jiu Valley will supply Romania this year with over 12 million tons of coal, including 3.5 million for coke and semicoke. In the last decades, this large mining field was enriched with numerous new mines, like those at Uricani, Dilja, Barbateni, Paroseni and Livezeni. The Vulcan mine was reopened, an important quarry was opened at Cimpu Lui Neag. Works for the turning to advantage of the coking coal at a new mine at Valea de Brazi are in an advanced stage.

The increase of the coal production will be ensured in the known mines through the mechanized digging of at least 8,000 m of shafts by the end of the year, through the considerable extension of mechanization of coal extraction, which has grown by 35.6 percent since last year, and of the assembly and transportation operation. This ensures a rise in the daily production of coal from 35,000 tons to over 42,000 tons.

In the last 10 years, the capital of the mines under the local combine grew more than 10-fold. Besides the opening of new mines and the growing degree of mechanization, new, highly efficient coal hewing methods are extended. Uricani, for instance applied for the first time in the country the method of high mechanized complex exploitation which is about to be generalized at Lupeni, Paroseni, a.o. The mines at Petrila and Lonea apply an extraction technology with artificial resistance ceiling which is to be extended to Aninoasa, Vulcan, etc. The Jiu Valley coalfield thus joins in the struggle for increasing tangibly the country's energy and raw materials resources.

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GROWTH OF CHEMICAL FERTILIZER INDUSTRY

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[Text] Bucharest AGERPRES 4 July 1984--The intensive way to increase the agricultural production could not be conceived without the adequate development of the chemical industry. This is a truth taken into consideration by our country, too.

That is how the silvery towers of the nitrogenous fertilizer plants at Roznov-Piatra Neamt and Bacau, at Slobozia and Craiova, tg. Mures, Victoria and Fagaras, the phosphoric fertilizer plants in Midia-Navodari, Turnu Magurele and Valea Calugareasca appeared. Thus the Arad plant, specialized in the output of complex chemical fertilizers, containing phosphorous, potassium and azote, was born. The mere enumeration of these plants also shows their judicious distribution in the big granaries of the country.

While in 1950, industry delivered 5,900 tons of chemical fertilizers to agriculture (high-analysis substance), this quantity grew to 266,400 tons in 1965, then to 928,700 tons in 1975 and to 1,413,000 tons in 1983. Every hectare of arable land, vineyards and orchards receives 120 kg of chemical fertilizers.

The productive capacity of arable lands grew over 25 percent compared to the natural initial one. Nevertheless, it is considered that the contribution of fertilizers to the increase of productivity can reach 50 percent. Also until 1990 the Romanian chemical industry will be able to ensure the quantity of fertilizers necessary to obtain such an increase in agriculture. The great crops of the next years are also prepared in the retorts of chemistry.

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PROBLEMS HAMPERING USE OF COMMODITY CREDITS

Belgrade PRIVREDNI PREGLED in Serbo-Croatian 22 Jun 84 p 3

[Excerpt] At the last meeting of the Executive Council of the Yugoslav Economic Chamber more light was finally thrown on the problem of using commodity credits. Foreign banks have granted $1.1 billion in 1984 for commodity credits. By the end of March $800 million had become operative [operativna]. But the economy had engaged not quite $330 million. At a time when there is small chance for undertaking new debts abroad and the old debts must be returned, one might ask why the economy is not accepting commodity credits. Already last year at this time discussions were held which pointed out that these loans are not expensive and are even favorable. But they must be repaid in a year.

The sum of almost $1 billion has not been fully used. Now after 1 year it could be said that the obtianing of commodity credits has not been easy. Above all, they have been strictly earmarked; raw materials, producer goods, spare parts, and other goods could not be purchased with these credits. Nor have all foreign banks shown a readiness to grant credits only for raw materials and producer goods but they have, rather, been concerned that the "assortment" be expanded also through the sale of equipment.

The procedure for taking credits has been too complicated, as well as the procedure for controlling expenditures from the credits. Most of the credits have been taken and spent in the republic in which a specific bank is also responsible for business with certain countries. In some cases one-half or more of the credits are spent there where the bank which grants the commodity credits is located. It is not difficult to conclude that with the scarcity of foreign exchange, "each puts out the fire at his own house first." It was required from those taking the credit that the foreign exchange earned from exporting production supported by commodity credits flow through the bank which granted the credits.

At least 20 documents are required in commodity credit grants. Finally, the taking of commodity credits under the uncertain conditions of economic operation has not been simple, but quite risky. There have been frequent changes in the foreign exchange system and now no one has an idea of what conditions for enterprise operation will be in 1985. It has also become clear that such credits are not cheap.

It seems that too much time is lost in various biddings and that there are no realistic prospects that the sum of $1.1 billion will be used quickly and fully.

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FOREIGN EXCHANGE ALLOCATION FOR SUPPLYING GOODS

Belgrade PRIVREDNI PREGLED in Serbo-Croatian 21 Jun 84 p 5

[Excerpt] The 1984 social agreement calls for the National Bank to intervene on the foreign exchange market by allocating $560 million to pay for importing certain products; this allocation includes $350 million to unidentified foreign exchange, i.e., from currency exchange offices, and $210 million to be provided by allocating 2.7 percent of total foreign exchange inflow. This National Bank intervention is $108 million more than that called for in the 1983 social agreement.

From mid-March when the National Bank began this allocation to the end of May the National Bank had allocated, at the request of OURs, $320.4 million to import various processed products and raw materials. But on the basis of guarantees given by the National Bank, only $263.4 million had actually been paid out. OURs have asked the National Bank for an additional $85.9 million. In addition to National Bank funds, OURs are to provide about $300 million of their own foreign exchange this year for counter-trade and other business payments. In fact, according to the social agreement, the use of National Bank foreign exchange funds depends on OURs' making corresponding payments from their own funds. Thus, to import sugar, OURs must provide 60 percent of the amount needed if the sugar is to be used for reproduction purposes, or 40 percent if it is imported for general consumption. In addition, 20 percent of the foreign exchange earned from exporting agricultural and food products is to be allocated for [importing] raw materials for producing artificial fertilizers and 8 percent is to be allocated to finance raw materials needed to produce insecticides and herbicides. Also, 15 percent of the foreign exchange earned from exporting livestock and livestock products is to be allocated for protein feed. The total amount of foreign exchange thus allocated [i.e., from enterprise foreign exchange earnings] is $1,370 million.

Up to now the social agreement has shown certain weaknesses, especially in allocating foreign exchange to pay for importing raw materials needed to produce fertilizers, insecticides and herbicides, and protein feed for animals. Namely, commercial banks in most cases are not allocating these funds or transferring them to specific banks, but rather these funds are often being used for other purposes. Last year, because of lack of bank discipline and inadequate control by authorized inspectorates, this mechanism did not function well, so only 50 percent of the planned amount was used [as planned]. In addition, an

OUR is primarily interested in achieving a profit from importing goods; thus, ... in the case of coffee the world price was too high for OURs to import, so there was a shortage on the domestic market. This was not the case with sugar where the world market price is low and the total amount of foreign exchange the National Bank has for importing sugar has already been contracted for and even increased by $10 million; the situation is similar with soybeans and other products.

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BRIEFS

FOREIGN EXCHANGE ALLOCATIONS--The NBJ (National Bank of Yugoslavia) has thus far allocated $50.8 million of the $100 million planned for importing raw materials to produce mineral fertilizers in 1984. An additional $40 million should be provided for this purpose from exports of agricultural and food products, while OURs are to provide an additional $100 million for this from their exports or through counter-trade. Producers of mineral fertilizers have thus far used only $25.2 million of the NBJ allocation, $3.1 million of which was for importing finished fertilizer products. According to the 1984 Social Agreement, the NBJ was to provide $150 million in foreign exchange to OURs to import sugar, cooking oil, soybeans, and coffee; this amount was increased by an additional $30 million at the beginning of May this year. OURs, in order to use these funds, must provide an equal amount of their own foreign exchange. By the end of May the NBJ had allocated $20 million for sugar, $37.4 million for cooking oil, $33.9 million for soybeans, and $29.5 million for coffee, totaling $120.8 million. OURs have shown much more interest in importing sugar than other products. [Excerpts] [Belgrade PRIVREDNI PREGLED in Serbo-Croatian 21 Jun 84 p 5]

TOURISM EARNINGS--By 20 May of this year OURs in the Yugoslav industry had earned $217 million in foreign exchange, or 10 percent more compared to the same 1983 period. Ivan Avzner, secretary of the General Association of the Tourist Economy of Yugoslavia, said that in 1984 $1.1 billion in foreign exchange is expected to be earned from tourism, or 20 percent more than in 1983 when $928.9 million was earned. It is estimated that by mid-June there will have been about 375,000 tourists in Yugoslavia, a 10-percent increase over last year at this time. [Excerpts] [Belgrade PRIVREDNI PREGLED in Serbo-Croatian 20 Jun 84 p 12]

SERBIAN ECONOMIC LAG--The Serbian Republic Economic Chamber at a meeting on 21 June noted that Serbia proper is lagging more and more in economic development compared to the rest of the country and there is no prospect for strengthening the material bases of work without more radical changes and introduction of the Long-Term Program of Economic Stabilization. Krsta Jovanovic, member of the presidium of the Serbian Economic Chamber, pointed out that Serbia (not including the provinces of Vojvodina and Kovovo) is below the average economic development of Yugoslavia; the industry of the republic has the lowest level of automation of production, namely, 20 percent lower than the country average. It has the lowest level of installed plant machinery per worker (about 85 percent of the country average) and nearly 1.5 million people live in regions of

the republic which are lagging most (about 50 of the 114 opstinas in the republic) and they account for nearly 27 percent of the republic population. The only sector which recorded above-average results in the 1953-83 period was that of employment. But in the last year or two the unemployment problem has intensified and last year 274,000 were unemployed, or 29.7 percent of the total unemployed in the country. In the first 3 years of the current economic plan, tasks have not been met, economic activity has slowed, agricultural production has increased by only one-half of that planned (field crop production has been especially unsatisfactory), and total exports, especially to the convertible area, have averaged 1.5 percent lower. [Excerpts] [Belgrade PRIVREDNI PREGLED in Serbo-Croatian 22 Jun 84 p 1]

LOWER SALARIES--The effect of the April law on temporarily prohibiting the distribution of some social funds for personal salaries this year will be felt already next month. According to this, users of social funds [e.g., enterprises] who have not settled obligations to creditors and banks can make advance payments for personal incomes from 1 July to 31 December which are [only] equal to the average net salary paid last year, increased by 50 percent of the growth of this year's advance payments for personal incomes in the social sector. Although one does not know precisely how many workers will receive reduced salaries, the number will not be small; it is expected that about 1 million workers will be affected. At the end of March, according to the Social Accounting Service (SDK), 2,469 accounts of users of social funds, employing almost 520,000 workers, were blocked. But the number of workers who will have reduced incomes because of unmet obligations will certainly be more than the number employed by organizations with blocked accounts. The prescriptions of this law also penalize those who ended last year with uncovered losses. Such organizations can pay out salaries from 1 March to 31 December equal to the salaries paid out during the same period last year plus a 50 percent increase over net incomes paid in the social sector. The SDK has established this increase for the 1 October 1983 to 31 March 1984 period compared to the same 1983 period. SDK facts show that of the total losses on final accounts last year 63 percent (or 74.3 billion dinars) remained uncovered. By the end of April this year total uncovered losses (including those from previous years) amounted to 76.6 billion dinars. It is estimated that the prescriptions of the law on these organizations will apply to about 210,000 workers. [Excerpt] [Belgrade PRIVREDNI PREGLED in Serbo-Croatian 26 Jun 84 p 2]

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